

*The Commission on Higher Education
in collaboration with the Philippine Normal University*

Teaching Guide for Senior High School

FUNDAMENTALS OF ACCOUNTANCY, BUSINESS, AND MANAGEMENT 2

SPECIALIZED SUBJECT



This Teaching Guide was collaboratively developed and reviewed by educators from public and private schools, colleges, and universities. We encourage teachers and other education stakeholders to email their feedback, comments, and recommendations to the Commission on Higher Education, K to 12 Transition Program Management Unit - Senior High School Support Team at k12@ched.gov.ph. We value your feedback and recommendations.



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Introduction

As the Commission supports DepEd's implementation of Senior High School (SHS), it upholds the vision and mission of the K to 12 program, stated in Section 2 of Republic Act 10533, or the Enhanced Basic Education Act of 2013, that "every graduate of basic education be an empowered individual, through a program rooted on...the competence to engage in work and be productive, the ability to coexist in fruitful harmony with local and global communities, the capability to engage in creative and critical thinking, and the capacity and willingness to transform others and oneself."

To accomplish this, the Commission partnered with the Philippine Normal University (PNU), the National Center for Teacher Education, to develop Teaching Guides for Courses of SHS. Together with PNU, this Teaching Guide was studied and reviewed by education and pedagogy experts, and was enhanced with appropriate methodologies and strategies.

Furthermore, the Commission believes that teachers are the most important partners in attaining this goal. Incorporated in this Teaching Guide is a framework that will guide them in creating lessons and assessment tools, support them in facilitating activities and questions, and assist them towards deeper content areas and competencies. Thus, the introduction of the **SHS for SHS Framework**.

SHS for SHS Framework

The SHS for SHS Framework, which stands for "Saysay-Husay-Sarili for Senior High School," is at the core of this book. The lessons, which combine high-quality content with flexible elements to accommodate diversity of teachers and environments, promote these three fundamental concepts:

SAYSAY: MEANING

Why is this important?

Through this Teaching Guide, teachers will be able to facilitate an understanding of the value of the lessons, for each learner to fully engage in the content on both the cognitive and affective levels.

HUSAY: MASTERY

How will I deeply understand this?

Given that developing mastery goes beyond memorization, teachers should also aim for deep understanding of the subject matter where they lead learners to analyze and synthesize knowledge.

SARILI: OWNERSHIP

What can I do with this?

When teachers empower learners to take ownership of their learning, they develop independence and self-direction, learning about both the subject matter and themselves.

About this Teaching Guide

Earth Science is a Core Subject taken in the first semester of Grade 11. This learning area is designed to provide a general background for the understanding of the Earth on a planetary scale. It presents the history of the Earth through geologic time. It discusses the Earth's structure and composition, the processes that occur beneath and on the Earth's surface, as well as issues, concerns, and problems pertaining to Earth's resources.

Implementing this course at the senior high school level is subject to numerous challenges with mastery of content among educators tapped to facilitate learning and a lack of resources to deliver the necessary content and develop skills and attitudes in the learners, being foremost among these.

In support of the SHS for SHS framework developed by CHED, these teaching guides were crafted and refined by biologists and biology educators in partnership with educators from focus groups all over the Philippines to provide opportunities to develop the following:

Saysay through meaningful, updated, and context-specific content that highlights important points and common misconceptions so that learners can connect to their real-world experiences and future careers;

Husay through diverse learning experiences that can be implemented in a resource-poor classroom or makeshift laboratory that tap cognitive, affective, and psychomotor domains are accompanied by field-tested teaching tips that aid in facilitating discovery and development of higher-order thinking skills; and

Sarili through flexible and relevant content and performance standards allow learners the freedom to innovate, make their own decisions, and initiate activities to fully develop their academic and personal potential.

These ready-to-use guides are helpful to educators new to either the content or biology new to the experience of teaching Senior High School due to their enriched content presented as lesson plans or guides. Veteran educators may also add ideas from these guides to their repertoire. The Biology Team hopes that this resource may aid in easing the transition of the different stakeholders into the new curriculum as we move towards the constant improvement of Philippine education.

Parts of the Teaching Guide

This Teaching Guide is mapped and aligned to the DepEd SHS Curriculum, designed to be highly usable for teachers. It contains classroom activities and pedagogical notes, and is integrated with innovative pedagogies. All of these elements are presented in the following parts:

1. Introduction

- Highlight key concepts and identify the essential questions
- Show the big picture
- Connect and/or review prerequisite knowledge
- Clearly communicate learning competencies and objectives
- Motivate through applications and connections to real-life

2. Motivation

- Give local examples and applications
- Engage in a game or movement activity
- Provide a hands-on/laboratory activity
- Connect to a real-life problem

3. Instruction/Delivery

- Give a demonstration/lecture/simulation/hands-on activity
- Show step-by-step solutions to sample problems
- Give applications of the theory
- Connect to a real-life problem if applicable

4. Practice

- Discuss worked-out examples
- Provide easy-medium-hard questions
- Give time for hands-on unguided classroom work and discovery
- Use formative assessment to give feedback

5. Enrichment

- Provide additional examples and applications
- Introduce extensions or generalisations of concepts
- Engage in reflection questions
- Encourage analysis through higher order thinking prompts

6. Evaluation

- Supply a diverse question bank for written work and exercises
- Provide alternative formats for student work: written homework, journal, portfolio, group/individual projects, student-directed research project

On DepEd Functional Skills and CHED College Readiness Standards

As Higher Education Institutions (HEIs) welcome the graduates of the Senior High School program, it is of paramount importance to align Functional Skills set by DepEd with the College Readiness Standards stated by CHED.

The DepEd articulated a set of 21st century skills that should be embedded in the SHS curriculum across various subjects and tracks. These skills are desired outcomes that K to 12 graduates should possess in order to proceed to either higher education, employment, entrepreneurship, or middle-level skills development.

On the other hand, the Commission declared the College Readiness Standards that consist of the combination of knowledge, skills, and reflective thinking necessary to participate and succeed - without remediation - in entry-level undergraduate courses in college.

The alignment of both standards, shown below, is also presented in this Teaching Guide - prepares Senior High School graduates to the revised college curriculum which will initially be implemented by AY 2018-2019.

College Readiness Standards Foundational Skills	DepEd Functional Skills
Produce all forms of texts (written, oral, visual, digital) based on: <ol style="list-style-type: none">1. Solid grounding on Philippine experience and culture;2. An understanding of the self, community, and nation;3. Application of critical and creative thinking and doing processes;4. Competency in formulating ideas/arguments logically, scientifically, and creatively; and5. Clear appreciation of one's responsibility as a citizen of a multicultural Philippines and a diverse world;	Visual and information literacies, media literacy, critical thinking and problem solving skills, creativity, initiative and self-direction
Systematically apply knowledge, understanding, theory, and skills for the development of the self, local, and global communities using prior learning, inquiry, and experimentation	Global awareness, scientific and economic literacy, curiosity, critical thinking and problem solving skills, risk taking, flexibility and adaptability, initiative and self-direction
Work comfortably with relevant technologies and develop adaptations and innovations for significant use in local and global communities	Global awareness, media literacy, technological literacy, creativity, flexibility and adaptability, productivity and accountability
Communicate with local and global communities with proficiency, orally, in writing, and through new technologies of communication	Global awareness, multicultural literacy, collaboration and interpersonal skills, social and cross-cultural skills, leadership and responsibility
Interact meaningfully in a social setting and contribute to the fulfilment of individual and shared goals, respecting the fundamental humanity of all persons and the diversity of groups and communities	Media literacy, multicultural literacy, global awareness, collaboration and interpersonal skills, social and cross-cultural skills, leadership and responsibility, ethical, moral, and spiritual values

K to 12 BASIC EDUCATION CURRICULUM
SENIOR HIGH SCHOOL – ACCOUNTANCY, BUSINESS AND MANAGEMENT (ABM) SPECIALIZED SUBJECT

Grade: 12
Semester: 1st Semester, 1st Quarter

Course Title: Fundamentals of Accountancy, Business and Management 2
No. of Hours/ Semester: 80 hours/ semester
Prerequisite: Fundamentals of Accountancy, Business and Management 1

Course Description: The course deals with the preparation and analysis of financial statements of a service business and merchandising business using horizontal and vertical analyses and financial ratios. Knowledge and skills in the analysis of financial statements will aid the future entrepreneurs in making sound economic decisions.

CONTENT	CONTENT STANDARD	PERFORMANCE STANDARDS	LEARNING COMPETENCIES	CODE
1. Statement of Financial Position (SFP)	<i>The learners demonstrate an understanding of...</i> account titles under the assets, liabilities, and capital accounts of the Statement of Financial Position, namely, cash, receivables, inventories, prepaid expenses, property, plant and equipment, payables, accrued expenses, unearned income, long-term liabilities and capital that will equip him / her in the preparation of the SFP using the report form and account form	<i>The learners shall be able to...</i> solve exercises and problems that require preparation of an SFP for a single proprietorship with proper classification of accounts as current and noncurrent using the report form and the account form	<i>The learners...</i> 1. identify the elements of the SFP and describe each of them	ABM_FABM12-Ia-b-1
			2. classify the elements of the SFP into current and noncurrent items	ABM_FABM12-Ia-b-2
			3. prepare the SFP of a single proprietorship	ABM_FABM12-Ia-b-3
			4. prepare an SFP using the report form and the account form with proper classification of items as current and noncurrent	ABM_FABM12-Ia-b-4
2. Statement of Comprehensive Income (SCI)	the service income and operating expenses of a service business as well as sales, contra sales, purchases, contra purchase accounts, cost of goods sold and general administrative and selling expenses of a merchandising business that will equip him / her in the preparation of the SCI for both service and merchandising businesses	solve exercises and problems that require preparation of SCI for a service business and a merchandising business	1. identify the elements of the SCI and describe each of these items for a service business and a merchandising business	ABM_FABM12-Ic-d-5
			2. prepare an SCI for a service business using the single-step approach	ABM_FABM12-Ic-d-6
			3. prepare an SCI for a merchandising business using the multistep approach	ABM_FABM12-Ic-d-7
3. Statement of Changes in Equity (SCE)	the forms of business organization, namely, single proprietorship, partnership, and corporation, and the	solve exercises and problems that require preparation of an SCE for a single proprietorship	1. discuss the different forms of business organization	ABM_FABM12-Ie-8

K to 12 BASIC EDUCATION CURRICULUM
SENIOR HIGH SCHOOL – ACCOUNTANCY, BUSINESS AND MANAGEMENT (ABM) SPECIALIZED SUBJECT

CONTENT	CONTENT STANDARD	PERFORMANCE STANDARDS	LEARNING COMPETENCIES	CODE
	structure of a SCE of a single proprietorship that will equip him / her in the preparation of the said financial report		2. prepare an SCE for a single proprietorship	ABM_FABM12-Ie-9
4. Cash Flow Statement (CFS)	the components and the structure of a CFS that will equip him / her in the preparation of the said financial report	solve exercises and problems that require preparation of a CFS	1. discuss the components and structures of a CFS	ABM_FABM12-If-10
			2. prepare a CFS	ABM_FABM12-If-11
5. Analysis and Interpretation of Financial Statements	the methods or tools of analysis of financial statements to include horizontal analysis, vertical analysis, and financial ratios to test the level of liquidity, solvency, profitability, and stability of the business	<p>solve exercises and problems that require computation and interpretation using horizontal analysis, vertical analysis, and various financial ratios</p> <p>Using the downloaded sample financial statements, he / she performs horizontal and vertical analysis, computes various financial ratios and interprets the level of liquidity, solvency, stability, and profitability of the business</p>	1. define the measurement levels, namely, liquidity, solvency, stability, and profitability	ABM_FABM12-Ig-h-12
			2. perform vertical and horizontal analyses of financial statements of a single proprietorship	ABM_FABM12-Ig-h-13
			3. compute and interpret financial ratios such as current ratio, working capital, gross profit ratio, net profit ratio, receivable turnover, inventory turnover, debt-to-equity ratio, and the like	ABM_FABM12-Ig-h-14

K to 12 BASIC EDUCATION CURRICULUM
SENIOR HIGH SCHOOL – ACCOUNTANCY, BUSINESS AND MANAGEMENT (ABM) SPECIALIZED SUBJECT

Grade: 12
Semester: 1st Semester, 2nd Quarter

Course Title: Fundamentals of Accountancy Business and Management 2
No. of Hours/ Semester: 80 hours/ semester

Course Description: The course deals with the preparation of basic business forms and documents, including bank transactions and a simple bank reconciliation statement. Integration of information technology in accounting will also be introduced. The students will prepare an accounting practice set that requires the application of learning in the first three accounting courses.

CONTENT	CONTENT STANDARD	PERFORMANCE STANDARDS	LEARNING COMPETENCIES	CODE
1. Accounting Books – Journal and Ledger	<i>The learners demonstrate an understanding of...</i> debits and credits, journal entries to record basic business transaction and using t-accounts, and posting to general ledgers	<i>The learners shall be able to...</i> prepare journal entries for basic business transactions; solve exercises and problems that require using the t-account	<i>The learners...</i> 1. differentiate the journal from the general ledger	ABM_FABM12-IIa-b-1
			2. determine the normal balance of an account	ABM_FABM12-IIa-b-2
			3. prepare journal entries to record basic business transaction	ABM_FABM12-IIa-b-3
			4. determine balances of accounts using the t-account	ABM_FABM12-IIa-b-4
2. Basic Documents and Transactions related to Bank Deposits	the types of bank accounts, basic transactions, and documents related to bank deposits and withdrawals	share samples of bank account forms and documents in class and discuss their uses and importance	1. identify the types of bank accounts normally maintained by a business	ABM_FABM12-IIc-5
			2. differentiate a savings account from a current or checking account	ABM_FABM12-IIc-6
			3. prepare bank deposit and withdrawal slips	ABM_FABM12-IIc-7
			4. identify and prepare checks	ABM_FABM12-IIc-8
			5. identify and understand the contents of a bank statement	ABM_FABM12-IIc-9
3. Bank Reconciliation Statement	a bank reconciliation statement, its nature and structure, and reconciling items and methods of preparation	solve exercises and problems involving the following: 1. identification of the proper treatment of reconciling items in the bank reconciliation statement	1. describe the nature of a bank reconciliation statement	ABM_FABM12-IIId-10
			2. identify common reconciling items and describe each of them	ABM_FABM12-IIId-11
			3. analyze the effects of the identified reconciling items	ABM_FABM12-IIId-12

K to 12 BASIC EDUCATION CURRICULUM
SENIOR HIGH SCHOOL – ACCOUNTANCY, BUSINESS AND MANAGEMENT (ABM) SPECIALIZED SUBJECT

CONTENT	CONTENT STANDARD	PERFORMANCE STANDARDS	LEARNING COMPETENCIES	CODE
		2. preparation of a bank reconciliation statement	4. prepare a bank reconciliation statement	ABM_FABM12-IIId-13
4. Accounting Practice Set	the preparation of an accounting practice set for a merchandising business	prepare basic business forms and documents, such as official receipts, vouchers, sales invoice, purchase invoice, delivery receipts, purchase order, and withdrawal and deposits slips; and complete and submit the accounting practice set for a merchandising business	perform the steps in the accounting cycle, from preparation of documents to the preparation, analysis, and interpretation of financial statements	ABM_FABM12-IIe-g-14
5. Income and Business Taxation	the sound principles of taxation, its purpose, and preparation of forms and payment of taxes	accomplish the BIR (Bureau of Internal Revenue) forms	1. define income and business taxation and its principles and processes	ABM_FABM12-IIh-j-15
			2. prepare the list of sources of gross income from compensation and gross income from business, and the corresponding personal and additional deductions	ABM_FABM12-IIh-j-16
			3. explain the procedure in the computation of gross taxable income and tax due	ABM_FABM12-IIh-j-17
			4. prepare the BIR forms	ABM_FABM12-IIh-j-18
			5. explain the principles and purposes of taxation	ABM_FABM12-IIh-j-19
			6. distinguish individual from business taxation	ABM_FABM12-IIh-j-20
			7. compute the gross taxable income and tax due	ABM_FABM12-IIh-j-21

K to 12 BASIC EDUCATION CURRICULUM
SENIOR HIGH SCHOOL – ACCOUNTANCY, BUSINESS AND MANAGEMENT (ABM) SPECIALIZED SUBJECT

Code Book Legend

Sample: **ABM_FABM12-Ia-b-2**

LEGEND		SAMPLE	
First Entry	Learning Area and Strand/ Subject or Specialization	Accountancy, Business and Management	ABM_FABM12
	Grade Level	Grade 12	
Uppercase Letter/s	Domain/Content/ Component/ Topic	Fundamentals of Accountancy, Business and Management	
			-
Roman Numeral <i>*Zero if no specific quarter</i>	Quarter	First Quarter	I
Lowercase Letter/s <i>*Put a hyphen (-) in between letters to indicate more than a specific week</i>	Week	Weeks one to two	a-b
			-
Arabic Number	Competency	classify the elements of the Statement of Financial Position into current and noncurrent items	2

K to 12 BASIC EDUCATION CURRICULUM
SENIOR HIGH SCHOOL – ACCOUNTANCY, BUSINESS AND MANAGEMENT (ABM) SPECIALIZED SUBJECT

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Anastacio, Ma. Flordeliza. *Fundamentals of Financial Management (with Industry Based Perspective)*. (Manila: Rex Book Store, 2011).

Gilbertson, Claudia. *Fundamentals of Accounting*. 8th ed. (Australia: Cengage Learning, 2010).

Padillo, Nicanor, Jr. *Financial Statements Preparation, Analysis and Interpretation*. (Manila: GIC Enterprises, 2011).

Pefianco, Erlinda C. *The Accounting Process: Principles and Problems*. (Makati: Goodwill Trading, 1996).

Young, Felina C. *Principles of Marketing*. (Manila: Rex Book Store, 2008).

Statement of Financial Position (SFP)

Content Standards

The learners demonstrate an understanding of account titles under the assets, liabilities, and capital accounts of the Statement of Financial Position, namely, cash, receivables, inventories, prepaid expenses, property, plant and equipment, payables, accrued expenses, unearned income, long-term liabilities and capital that will equip him / her in the preparation of the SFP using the report form and account form.

Performance Standards

The learners shall be able to solve exercises and problems that require preparation of an SFP for a single/sole proprietorship with proper classification of accounts as current and noncurrent using the report form and the account form.

Learning Competencies

The learners should be able to:

1. identify the elements of the SFP and describe each of them
(ABM_FABM12-1a-b-1)
2. classify the elements of the SFP into current and noncurrent items
(ABM_FABM12-1a-b-2)
3. prepare the SFP of a single/sole proprietorship (ABM_FABM12-1a-b-3)
4. prepare an SFP using the report form and the account form with proper classification of items as current and noncurrent (ABM_FABM12-1a-b-4)

Specific Learning Outcomes

At the end of the topic, learners should be able to:

1. reflect on the importance of preparing the SFP.
2. reflect on the separation of current and noncurrent items in the SFP
3. reflect on the difference of the report form and the account form

LESSON OUTLINE

Introduction/ Review	Communicating learning objectives and reviewing the accounting equation (assets=liabilities+equity), accounts under assets, liabilities, equity, and the concept of a single/sole proprietorship business	45
Motivation	Preparing a personal SFP using savings and personal things (bag, pencil, pen, clothes, etc.) as assets and the amount that they owe to their friends or the amount of tuition that their parents are paying as liabilities. Discussing the importance of the SFP and its difference with Statement of Owner's Equity	25
Instruction/ Delivery	Instruct learners about the elements of the SFP and the difference between current and noncurrent items and the difference between report form and account form	140
Practice	Answering easy, medium and hard questions about the SFP	30
Enrichment	Let the learners reflect on the importance of the SFP	30
Evaluation	Problem solving questions and preparation of SFP	120
Materials	Chalk and blackboard or LCD with laptop (powerpoint) or acetates	
Resources	See Appendix	

INTRODUCTION (5 MINS)

A. Communicate learning objectives

At the end of the topic, I should be able to

1. Identify the elements of the SFP and describe each of these items for a single/sole proprietorship business
2. Prepare an SFP for a single/sole proprietorship business using the report form
3. Prepare an SFP for a single/sole proprietorship business using the account form

B. Present terms

At the end of this topic, I should be able to define the following terms:

1. Statement of Financial Position/Permanent Accounts
2. Assets
3. Contra Assets
4. Accrued Income
5. Prepaid Assets
6. Liabilities
7. Contra Liability
8. Accrued Expense
9. Unearned Income
10. Equity
11. Report Form
12. Account Form

Teacher Tips:

Learners might not be able to remember the terms under assets/liabilities due to the time gap between Grade 11 (ABM 1) and Grade 12 (ABM 2). Be ready to define terms and give examples to make learners remember.

REVIEW (40 MINS)

1. Ask the learners if they can still remember the following terms:

- a. Accounting Equation
- b. Assets
- c. Liabilities
- d. Equity
- e. Single/sole Proprietorship Business

2. Write learners' answers on the board as they cite them even if there are wrong answers and differentiate them one by one
3. Ask the learners to give specific account titles for each of the terms above and give examples of single/sole proprietorship businesses and merchandising businesses. Teacher can refer to topics discussed in ABM 1 – The Accounting Equation, Types of Major Accounts, Business Transactions and Their Analysis as Applied to the Accounting Cycle of a Service Business
 - a. Accounting Equation– $\text{Assets} = \text{Liabilities} + \text{Equity}$
 - b. Assets – Cash, Accounts Receivable
 - c. Liabilities – Accounts Payable, Loan Payable
 - d. Equity – Capital
 - e. Single/sole proprietorship business –as long as there is one owner
4. Ask the learners to identify the normal balance of asset (debit), liabilities (credit) and equity (credit). Review on how these accounts are increased/decreased.

Teacher Tips:

Assets are increased when debited while liabilities and equity are increased when credited. They are decreased when there are entries on the other side (credit for assets and debit for liabilities)

MOTIVATION (15 MINS)

1. Prepare a Personal SFP:
 - a. Ask the learners to get a ¼ piece of paper (any paper will do if they don't have a ¼ sheet)
 - b. Ask them to write their current savings and everything that they own (clothes, pen, pencil, etc.)
 - c. Ask them to write the amount that they owe their friends, family members, parents (tuition)
 - d. Tell learners to deduct the amount they owe from the amount they own
 - e. Associate amounts owned with assets and amount owed with liabilities with the net amount as equity
2. Discuss the importance of the SFP:
 - a. Reinforce the difference between assets and liabilities
 - b. Tell the learners that having more assets does not mean that the business is earning

Teacher Tips:

There might be some cases that the result of the learner's computation is zero or even negative. This means that their liabilities to their friends, relatives and/or parents are higher than their assets. Discuss that companies usually have assets that are bigger than their liabilities and that almost all learners have bigger liabilities than assets.

INSTRUCTION/DELIVERY (140 MINS)

1. Define the term Statement of Financial Position and introduce the term Permanent Accounts

STATEMENT OF FINANCIAL POSITION – Also known as the balance sheet. This statement includes the amounts of the company's total assets, liabilities, and owner's equity which in totality provides the condition of the company on a specific date. (Haddock, Price, & Farina, 2012)

PERMANENT ACCOUNTS – As the name suggests, these accounts are permanent in a sense that their balances remain intact from one accounting period to another. (Haddock, Price, & Farina, 2012) Examples of permanent account include Cash, Accounts Receivable, Accounts Payable, Loans Payable and Capital among others. Basically, assets, liabilities and equity accounts are permanent accounts. They are called permanent accounts because the accounts are retained permanently in the SFP until their balances become zero. This is in contrast with temporary accounts which are found in the Statement of Comprehensive Income (SCI). Temporary accounts unlike permanent accounts will have zero balances at the end of the accounting period.

CONTRA ASSETS – Contra assets are those accounts that are presented under the assets portion of the SFP but are reductions to the company's assets. These include Allowance for Doubtful Accounts and Accumulated Depreciation. Allowance for Doubtful Accounts is a contra asset to Accounts Receivable. This represents the estimated amount that the company may not be able to collect from delinquent customers. Accumulated Depreciation is a contra asset to the company's Property, Plant and Equipment. This account represents the total amount of depreciation booked against the fixed assets of the company.

2. Provide a sample SFP to the learners (powerpoint or acetate or hard copy) as an overview. Teacher can use the sample below or find a new one.

Teacher Tips:

Teachers can visit youtube.com and view the this link: <https://www.youtube.com/watch?v=mhmaHayMha8> for reference.

**LEARNING IS FUN COMPANY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016**

Assets

Current Assets

Cash		Php 100,000.00
Accounts Receivable	Php 500,000.00	
Less: Allowance for Doubtful Accounts	(50,000.00)	450,000
Accrued Income		300,000
Inventory		200,00
Prepaid Expenses		50,000
Total Current Assets		Php 1,100,000.00

Noncurrent Assets

Long Term Investments		Php 1,250,000.00
Intangible Assets		500,000.00
Property, Plant and Equipment		
Cost	Php 1,000,000.00	
Less: Accumulated Depreciation	(300,000.00)	700,000.00
Total Noncurrent Assets		Php 1,450,000.00
Total Assets		Php 3,550,000.00

Teacher Tips:

The teacher can explain the use of “as of” by telling learners that amounts in the SFP are permanent meaning that the amounts are cumulative from the beginning of the life of the company.

Liabilities and Owner's Equity

Current Liabilities

Accounts Payable	Php 250,000.00
Accrued Expenses	100,000.00
Unearned Income	80,000.00
Notes Payable	150,000.00
<i>Total Current Liabilities</i>	1,500,000.00
	580,000.00

Noncurrent Liabilities

Mortgage Payable	Php 500,000.00
Loans Payable	1,000,000.00
<i>Total Noncurrent Liabilities</i>	Php 1,500,000.00
Total Liabilities	Php 3,080,000.00

Owner's Equity	470,000.00
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Total Liabilities and Owner's Equity	Php 3,550,000.00
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3. Differentiate the Report Form and Account Form

Report Form – A form of the SFP that shows asset accounts first and then liabilities and owner's equity accounts after. (Haddock, Price, & Farina, 2012) The balance sheet shown earlier is in report form.

Account Form – A form of the SFP that shows assets on the left side and liabilities and owner's equity on the right side just like the debit and credit balances of an account. (Haddock, Price, & Farina, 2012)

- Emphasize that the two are only formats and will yield the same amount of total assets, liabilities and equity
- Emphasize that assets should always be equal to liabilities and equity

4. Group accounts under Current Assets, Noncurrent Assets, Current Liabilities, Noncurrent Liabilities and Owner's Equity

Teacher Tips:

The teacher can explain the use of "as of" by telling learners that amounts in the SFP are permanent meaning that the amounts are cumulative from the beginning of the life of the company.

Current Assets – Assets that can be realized (collected, sold, used up) one year after year-end date. Examples include Cash, Accounts Receivable, Merchandise Inventory, Prepaid Expense, etc.

Current Liabilities – Liabilities that fall due (paid, recognized as revenue) within one year after year-end date. Examples include Notes Payable, Accounts Payable, Accrued Expenses (example: Utilities Payable), Unearned Income, etc.

Current Assets are arranged based on which asset can be realized first (liquidity). Current assets and current liabilities are also called short term assets and short term liabilities.

Noncurrent Assets – Assets that cannot be realized (collected, sold, used up) one year after year-end date. Examples include Property, Plant and Equipment (equipment, furniture, building, land), Long Term investments, Intangible Assets etc.

Noncurrent Liabilities – Liabilities that do not fall due (paid, recognized as revenue) within one year after year-end date. Examples include Loans Payable, Mortgage Payable, etc.

Noncurrent assets and noncurrent liabilities are also called long term assets and long term liabilities.

5. Difference of the Statement of Financial Position of a Service Company and of a Merchandising Company

The main difference of the Statements of the two types of business lies on the inventory account. A service company has supplies inventory classified under the current assets of the company. While a merchandising company also has supplies inventory classified under the current assets of the company, the business has another inventory account under its current assets which is the Merchandise Inventory, Ending.

6. Point out the different parts of the Statement of Financial Position

**LEARNING IS FUN COMPANY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016**

→ **HEADING**

Assets		
<i>Current Assets</i>		
	→ CURRENT ASSETS	
Cash		Php 100,000.00
Accounts Receivable	Php 500,000.00	
Less: Allowance for Doubtful Accounts	(50,000.00)	450,000
Accrued Income		300,000
Inventory		200,00
Prepaid Expenses		50,000
Total Current Assets		Php 1,100,000.00
<i>Noncurrent Assets</i>		
Long Term Investments		Php 1,250,000.00
Intangible Assets		500,000.00
Property, Plant and Equipment		
Cost	Php 1,000,000.00	
Less: Accumulated Depreciation	(300,000.00)	700,000.00
Total Noncurrent Assets		Php 1,450,000.00
Total Assets		Php 3,550,000.00

→ **NON CURRENT ASSETS**

Teacher Tips:

Book definition can be used but it is better to provide them a keyword or explain to learners that the terms usually denote the meaning already like "Prepaid Expenses" – expenses that were paid in advance which is different from "Unearned Income" – income that is not yet earned by the company. Teacher can also use local phrases such as *bayad muna bago gamit* (Prepaid Expense on the point of view of the one requesting for the service while Unearned Income on the point of view of the one rendering the service).

Teacher should not only differentiate Current Assets with Noncurrent Assets and Current Liabilities with Noncurrent Liabilities but also Current Assets with Current Liabilities and Noncurrent Assets with Noncurrent Liabilities.

Some learners might be confused between contra assets and liabilities.

Rules on single/sole rule and double rule: When there is an operation (addition, subtraction), single/sole rule. Total assets is double ruled and total liabilities and equity is double ruled because they represent the end of a part of the financial statement

Liabilities and Owner's Equity		
<i>Current Liabilities</i>		
Accounts Payable	Php 250,000.00	
Accrued Expenses	100,000.00	
Unearned Income	80,000.00	
Notes Payable	150,000.00	
<i>Total Current Liabilities</i>	1,500,000.00	
	580,000.00	
<i>Noncurrent Liabilities</i>		
Mortgage Payable	Php 500,000.00	
Loans Payable	1,000,000.00	
<i>Total Noncurrent Liabilities</i>	Php 1,500,000.00	
Total Liabilities	Php 3,080,000.00	
Owner's Equity	470,000.00	
Total Liabilities and Owner's Equity	Php 3,550,000.00	

- a. Heading
 - i. Name of the Company
 - ii. Name of the Statement
 - iii. Date of preparation (emphasis on the wording – “as of”)
- b. Sample of a Report Form SFP – Refer to the one above
- c. Sample of an Account Form SFP

**HAPPY SELLING COMPANY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016**

→ **HEADING**

Assets

Current Assets

→ **CURRENT ASSETS**

Cash		Php 100,000.00
Accounts Receivable	Php 500,000.00	
Less: Allowance for Doubtful Accounts	(50,000.00)	450,000
Accrued Income		300,000
Inventory		200,00
Prepaid Expenses		50,000
Total Current Assets		Php 1,100,000.00

Noncurrent Assets

Long Term Investments		Php 1,250,000.00
Intangible Assets		500,000.00
Property, Plant and Equipment		
Cost	Php 1,000,000.00	
Less: Accumulated Depreciation	(300,000.00)	700,000.00
Total Noncurrent Assets		Php 1,450,000.00
Total Assets		Php 3,550,000.00

→ **NON CURRENT ASSETS**

Liabilities and Owner's Equity		
<i>Current Liabilities</i>		
Accounts Payable	Php 250,000.00	
Accrued Expenses	100,000.00	
Unearned Income	80,000.00	
Notes Payable	150,000.00	
<i>Total Current Liabilities</i>	580,000.00	
<i>Noncurrent Liabilities</i>		
Mortgage Payable	Php 500,000.00	
Loans Payable	1,000,000.00	
<i>Total Noncurrent Liabilities</i>	Php 1,500,000.00	
Total Liabilities	Php 3,080,000.00	
Owner's Equity	470,000.00	
Total Liabilities and Owner's Equity	Php 3,550,000.00	

ALTERNATIVE TEACHING METHOD AFTER LECTURE

Classification between Current and Noncurrent

1. Materials needed: None
2. Learners should be grouped into 4 groups. Each group will start with 100 points.
3. 1st group will be the current assets. 2nd group will be the noncurrent assets. 3rd group will be the current liabilities. 4th group will be the noncurrent liabilities.
4. Teacher will enumerate accounts (cash, accounts receivable, equipment, accounts payable, loans payable, owners' equity)

5. For each account, the group where the account should be classified into should stand while the other groups should stay seated. For every member who was not able to stand when the group is required to or for every member who stood when the group is not required to, a point will be deducted from the group.
6. Each group should reflect on the mistakes after the activity.
7. Teacher can give accounts that maybe very specific to due dates to make students think (example: loans receivable that is due within 1 year after year-end)

PRACTICE (30 MINS)

At least 5 Easy questions can focus on the two formats of the SFP. Computation of total assets, total liabilities and equity using the accounting equation and definition of terms are also part of the easy questions.

At least 5 Medium questions can focus on the computation of the total assets and total liabilities and equity assuming that individual accounts are given and the learner will have to identify each account as either asset, liability or equity to compute for the missing amount. Identification of current and noncurrent items can also be part of Medium questions.

At least 5 Difficult questions can focus on the computation of individual accounts provided that the SFP is given as a whole.

Teacher can ask the class to go back to their groups and give account titles with amounts for the groups to prepare the SFP. The groups can discuss the results of their group discussions after.

Another activity can be focused on the school. Let students group themselves and identify the different assets and liability accounts of the school. From the accounts identified, the groups can prepare the hypothetical statement of financial position for the school.

Teacher Tips:

Teacher should be able to shuffle the given and the missing item to promote critical thinking among the learners.

Sample questions:

Easy:

1. Learning is Fun Company had current assets amounting to Php 100,000. Noncurrent assets for the year totaled Php 76,000. How much is the company's total assets?
Answer: P176,000.
2. Happy Selling Company's total liabilities amounted Php 10,000. Total equity had an ending balance of Php 20,000. How much is total assets?
Answer: P30,000.

Medium:

1. Happy Selling's had the following accounts at year end: Cash-250,000, Accounts Payable-70,000, Prepaid Expense-15,000. Compute for the company's current assets.
Answer: P265,000.
2. Happy Selling's Accounts Receivable amounted to Php 500,000. Prepaid Expense and Unearned Income totaled Php 30,000 and Php 10,000 respectively. Cash balance amounted to Php 100,000 while Accounts Payable and Inventory totaled to Php 20,000 and Php 10,000 respectively. How much is the company's current assets? Current liabilities?
Answer: P640,000 and P30,000

Difficult

1. Company's Total Liabilities and Equity amounted to Php 285,000. Total noncurrent assets ended at Php 85,000. Cash totaled Php50,000. Inventory amounted to Php100,000. Assuming the company had no other assets, how much is Accounts Receivable?
Answer: P50,000.
2. Total assets amounted to Php575,000. Total equity amounted to Php 250,000. Accounts Payable amounted to Php 50,000 while Unearned Income totaled Php 85,000. Assuming there are no other current liabilities, compute for the company's noncurrent liabilities.
Answer: P190,000

ENRICHMENT (30 MINS)

1. Teacher can discuss how a company can have a lot of assets but still have very low equity.

When the company has a lot of assets (example: cash, accounts receivable, prepaid expenses), owners may sometimes think that the company is doing well. There are instances that owners forget that they might also have a lot of liabilities which may result to their equities having a very small balance. With the preparation of the SFP, the owner can easily see the assets, liabilities and equity balances of his/her company which will show exactly the financial position of the company as of a given point in time.

2. Other important matters:

- a. Discuss that without the SFP, the company cannot know if it truly owns anything because in case of bankruptcy, liabilities are paid first.
 - Small businesses don't usually account for their assets and liabilities as long as the owners see that cash is coming in. They sometimes forget that when liabilities become due, if they don't have enough current assets to be able to pay those liabilities, then they can get in trouble with their debts.
- b. Discuss the importance of the format:
 - i. Report form vs Account form – these are just formats. Usually depends on the reader for preference.
 - ii. Report form is the normal format for those not familiar with accounting. Account form easily shows that the SFP is balanced and separates assets from liabilities and equities.
 - iii. Separation of the current and noncurrent – current liabilities are upcoming liabilities and the company should be prepared to pay them. Companies should prepare as early as today for payment of noncurrent liabilities as these usually have large balances. Current assets shows the company's ability to sustain its current operations while noncurrent assets shows the company's ability to sustain long-term operations.

Teacher Tips:

Teachers should be able to appreciate the use of the SFP personally to be able to impart the same appreciation to the learners. The teacher can prepare his/her own SFP.

EVALUATION (30 MINS)

2 quizzes

1. Quiz on the basic info about SFP and the two formats format. This should include theory questions, problem solving questions and preparation of SFP for a single/sole proprietorship business.
2. Quiz on the computation of the different parts of the SFP. This should include computations for missing amounts and identifying current and noncurrent items of the SFP.

Sample questions:

Aside from the ones provided in the practice section, the teacher can make use of the following sample questions:

1. If assets are Php17,000 and owner's equity is Php10,000, liabilities are _____.
Answer: Php 7,000 (Topic: Assets = Liabilities + Owner's Equity)
2. At the end of the first month of operations for Juana's Delivery Service, the business had the following accounts: Accounts Receivable, Php1,200; Prepaid Insurance, Php500; Equipment, Php36,200 and Cash, Php40,650. On the same date, Juana owed the following creditors: Nena's Supply Company, Php12,000; Maria's Equipment, Php9,500. The current assets for the Juana's Delivery Service are _____.
Answer: Php42,350 (Topic: Identifying current assets)
3. At the end of the first month of operations for Juana's Delivery Service, the business had the following accounts: Accounts Receivable, Php1,200; Prepaid Insurance, Php500; Equipment, Php36,200 and Cash, Php40,650. On the same date, Juana owed the following creditors: Nena's Supply Company, Php12,000 (due in 6 months); Maria's Equipment, Php9,500 (due after 2 years). Current liabilities are _____.
Answer: Php12,000 (Topic: Identifying current liabilities)
4. If during the year total assets increase by Php75,000 and total liabilities decrease by Php16,000, by how much did owner's equity increase/decrease?
Answer: Increase by Php 91,000 (Topic: Effect of changes in one account to the other accounts in

Teacher Tips:

Teacher can use the format of the practice questions and change values but it is better to prepare new questions using same concept. Some questions need not be straight forward.

the statement)

5. Prepare a Statement of Financial Position using the following accounts (one in report form and one in account form):

Cash – 5,000

Loans Payable – 77,500

Accounts Receivable – 2,600

Supplies – 2,300

Equipment – 17,000

Owner's equity – 40,000

Accounts Payable – 22,400

Building – 113,000

Learners can use any business name and the end of the current year for the heading.

Suggested Answer: (Topic: Preparation of the statement)

**NAME OF COMPANY
STATEMENT OF FINANCIAL POSITION
AS OF (YEAR-END)**

Assets

Current Assets

Cash P 5,000.00

Accounts Receivable 2,600.00

Supplies 2,300.00

Total Current Assets P 9,900.00

Noncurrent Assets

Building P 113,000.00

Equipment 17,000.00

Total Noncurrent Assets P 130,000.00

Total Assets P 139,900.00

Liabilities and Owner's Equity

Current Liability

Accounts Payable P 22,400.00

Noncurrent Liability

Loans Payable 77,500.00

Total Liabilities P 99,900.00

Owner's Equity 40,000.00

Total Liabilities and Owner's Equity P 139,900.00

6. You were hired by Mr. Juan Dela Cruz to prepare his sari-sari store's Statement of Financial Position. In order to prepare the statement, you identified the following assets and liabilities of Mr. Dela Cruz:
- a. His sari-sari store has cash deposited in a bank account amounting to P50,000
 - b. His sari-sari store had a lot of uncollected sales from customers amounting to P75,000
 - c. The total amount of merchandise left inside the store is P30,000
 - d. He already paid one year's rent in advance amounting to P12,000
 - e. The value of all the company's furniture amounted to P100,000
 - f. He bought merchandise from his supplier amounting to P25,000 and the supplier agreed that payment can be made 2 months after year-end
 - g. SSS, Philhealth and Pag-ibig Payables for his one employee totaled P5,000
 - h. The sari-sari store had outstanding liabilities to utility companies amounting to P3,000
 - i. He had a loan from the bank amounting to P50,000 to be paid in 3 years

Prepare a Statement of Financial Position for the company (one in report form and one in account form) – *This can be given as a group work which can be taken home to be prepared using a spreadsheet program.*

Suggested Answer: (Topic: Preparation of the statement)

NAME OF COMPANY
STATEMENT OF FINANCIAL POSITION
AS OF (YEAR-END)

Assets		Liabilities and Owner's Equity	
<i>Current Assets</i>		<i>Current Liabilities</i>	
Cash	P 50,000.00	Accounts Payable	P 25,000.00
Accounts Receivable	75,000.00	Utilities Payable	3,000.00
Merchandise Inventory	30,000.00	SSS, PhilHealth & Pag-ibig Payables	5,000.00
Prepaid Rent	12,000.00	Total Current Liabilities	P 33,000.00
Total Current Assets	P 167,000.00	Noncurrent Liability	
<i>Noncurrent Assets</i>		Loans Payable	50,000.00
Furniture	P 100,000.00	Total Liabilities	P 88,000.00
Total Assets	P 267,000.00	Owner's Equity	179,000.00
		Total Liabilities and Owner's Equity	P 267,000.00

Appendix

- (1) Haddock, M., Price, J., & Farina, M. (2012). *College Accounting: A Contemporary Approach, Second Edition*. New York: McGraw-Hill/Irwin.
- (2) Valencia, E. G., & Roxas, G. F. (2010). *Basic Accounting* (3rd ed.). Mandaluyong City, Philippines: Valencia Educational Supply.

Statement of Comprehensive Income (SCI)

Content Standards

The learners demonstrate an understanding of the service income and operating expenses of a service business as well as sales, contra revenue, purchases, contra purchase accounts, Cost of Goods Sold and general administrative and selling expenses of a merchandising business that will equip him/her in the preparation of the SCI for both service and merchandising businesses.

Performance Standards

The learners shall be able to solve exercises and problems that require preparation of SCI for a service business and a merchandising business

Learning Competencies

The learners should be able to:

1. identify the elements of the SCI and describe each of these items for a service business and a merchandising business **(ABM_FABM12-1c-d-5)**
2. prepare an SCI for a service business using the single-step approach **(ABM_FABM12-1c-d-6)**
3. prepare an SCI for a merchandising business using the multi-step approach **(ABM_FABM12-1c-d-7)**

Specific Learning Outcomes

At the end of the topic, learners should be able to:

1. reflect on the importance of preparing the SCI.
2. reflect on the difference of the two formats (single-step and multi-step)
3. reflect on the use of contra revenue and contra purchases
4. reflect on the classification of expenses between (general and administrative and selling expense)

LESSON OUTLINE

Introduction/ Review	Communicating learning objectives and reviewing accruals, revenues, gains, expenses, losses, service business vs merchandising business	35
Motivation	Preparing a personal SCI using allowance as a revenue and daily purchases (food, etc.) as expenses. Discussing the importance of the SCI and its difference with cash flows	15
Instruction/ Delivery	Instruct learners about the elements of the SCI and the difference between the single-step approach and the multi-step approach	130
Practice	Answering easy, medium and hard questions about the SCI	30
Enrichment	Let the learners reflect on the importance of the SCI to their personal transactions by differentiating it with cash flows	30
Evaluation	Problem solving questions and preparation of SCI	120
Materials	Chalk and blackboard or LCD with laptop (powerpoint) or acetates	
Resources	See appendix	

INTRODUCTION (5 MINS)

A. Communicate learning objectives

At the end of the topic, I should be able to

1. Identify the elements of the SCI and describe each of these items for a service business and a merchandising business
2. Prepare an SCI for a service business using the single-step approach
3. Prepare an SCI for a merchandising business using the multi-step approach

B. Present terms

At the end of this topic, I should be able to define the following terms:

1. Statement of Comprehensive Income
2. Temporary Accounts
3. Contra Purchases
4. Cost of Goods Sold
5. General and Administrative Expenses
6. Selling Expenses
7. Single-Step
8. Multi-Step

Teacher Tip:

Learners might not be able to remember the terms especially accruals due to time gap between Grade 11 (ABM 1) and Grade 12 (ABM 2). Be ready to define terms and give examples to make learners remember.

REVIEW (30 MINS)

1. Ask the learners if they can still remember the following terms:

- a. Accrual
- b. Revenues
- c. Expenses
- d. Service business
- e. Merchandising business

2. Write learners' answers on the board as they cite them even if there are wrong answers and differentiate them one by one

3. Ask the learners to give specific account titles for each of the terms above and give examples of service businesses and merchandising businesses
 - a. Accrual – accrued income, accrued expense
 - b. Revenues – service income, sales
 - c. Expenses – salaries expense, depreciation expense
 - d. Service business – school, repair shop
 - e. Merchandising business – sari-sari store, vegetable vendor

MOTIVATION (15 MINS)

1. Prepare a Personal SCI:
 - a. Ask the learners to get a $\frac{1}{4}$ piece of paper (any paper will do if they don't have a $\frac{1}{4}$ sheet)
 - b. Ask them to write their monthly allowance (computed by daily allowance x number of days in a month)
 - c. Ask them to write the amount they spend on food, transportation, phone load, etc. (make it monthly to match their allowance)
 - d. Tell learners to deduct the amount they spend from the amount their allowance
 - e. Associate allowance with revenue and spending with expense with the net amount as net income
2. Discuss the importance of the SCI:
 - a. Reinforce the difference between accrued income/expense with cash transactions
 - b. Tell the learners that a business can still earn even without having cash and can still lose even with a full bank account to make them curious and tell them that they will understand these concepts as you go through with the subject

INSTRUCTION/DELIVERY (130 MINS)

1. Define the term Statement of Comprehensive Income and introduce the term Temporary Accounts

STATEMENT OF COMPREHENSIVE INCOME – Also known as the income statement. Contains the results of the company's operations for a specific period of time which is called net income if it

Teacher Tips:

There might be some cases that the result of the learner's computation is zero or even negative. Ask the learner to review the computation and if it is negative, ask where the learner gets the difference (lending from classmates, friends) and include them as part of the revenue.

If the learner does not have a regular allowance, the teacher can ask him/her to give an estimate.

Teacher Tips:

Teachers can visit [youtube.com](https://www.youtube.com/watch?v=mhmaHayMha8) and view the this link: <https://www.youtube.com/watch?v=mhmaHayMha8> for reference.

is a net positive result while a net loss if it is a net negative result. This can be prepared for a month, a quarter or a year. (Haddock, Price, & Farina, 2012)

TEMPORARY ACCOUNTS – Also known as nominal accounts are the accounts found under the SCI. They are called such because at the end of the accounting period, balances under these accounts are transferred to the capital account, thus having only temporary amounts and resulting to zero beginning balances at the beginning of the following year.(Haddock, Price, & Farina, 2012)Examples of temporary accounts include revenues, sales, utilities expense, supplies expense, salaries expense, depreciation expense, interest expense among others.

2. Provide a sample SCI to the learners (powerpoint or acetate or hard copy) as an overview. Teacher can use the sample below or find a new one.

**LEARNING IS FUN COMPANY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016**

Service Revenue	Php 100,000.00
Expenses:	
Salaries Expense	Php 40,000.00
Rent Expense	20,000.00
Depreciation Expense	10,000.00
Utilities Expense	5,000.00
<i>Miscellaneous Expense</i>	1,000.00
Total Expenses	Php 76,000.00
Net Income	Php 24,000.00

Teacher Tips:

Teachers can visit youtube.com and view the this link: <https://www.youtube.com/watch?v=mhmaHayMha8> for reference.

Teacher Tips:

The teacher can ask the learners to track their allowances and expenses for the whole term and submit their personal income statement as the final output.

3. Differentiate the single-step and multi-step format of the SCI

Single-step – Called single-step because all revenues are listed down in one section while all expenses are listed in another. Net income is computed using a “single-step” which is Total Revenues minus Total Expenses. (Haddock, Price, & Farina, 2012)

Multi-step – Called multi-step because there are several steps needed in order to arrive at the company’s net income. (Haddock, Price, & Farina, 2012)

- a. Emphasize that the two are only formats and will yield the same amount of net income/loss
- b. Discuss that single-step SCI is more commonly used by service companies while multi-step format is more commonly used by merchandising companies

4. Difference of the Statement of Comprehensive Income of a Service Company and of a Merchandising Company

The main difference of the Statements of the two types of business lies on how they generate their revenue. A service company provides services in order to generate revenue and the main cost associated with their service is the cost of labor which is presented under the account Salaries Expense. On the other hand, a merchandising company sells goods to customers and the main cost associated with the activity is the cost of the merchandise which is presented under the line item Cost of Goods Sold. In presenting these items on the Statement of Comprehensive Income, a service company will separate all revenues and expenses (as seen in the single-step format) while a merchandising company will present total sales and cost of goods sold on the first part of the statement which will net to the company’s gross profit before presenting the other expenses which are classified as either administrative expenses or selling expenses (as seen in the multi-step format).

5. Point out the different parts of the Statement of Comprehensive Income

LEARNING IS FUN COMPANY STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016			→ HEADING
Service Revenue	→ REVENUES		Php 100,000.00
Expenses:			
Salaries Expense			Php 40,000.00
Rent Expense			20,000.00
Depreciation Expense	→ EXPENSES		10,000.00
Utilities Expense			5,000.00
Miscellaneous Expense			1,000.00
Total Expenses			Php 76,000.00
Net Income	→ NET INCOME/LOSS		Php 24,000.00

Teacher Tips:

The teacher can explain the use of "for the" by telling learners that amounts in the SCI are temporary meaning that each period (month, quarter, year) amounts go back to being zero to start all over.

- a. Heading
 - i. Name of the Company
 - ii. Name of the Statement
 - iii. Date of preparation (emphasis on the wording – "for the")
- b. Sample of a Report Form SFP – Refer to the one above
 - i. First part is revenues
This is the total amount of revenue that the company was able to generate from providing services to customers
 - ii. Second part is expenses (can be broken down into General and Administrative and Selling Expenses)
Please see the discussion in multi-step for general and administrative and selling expenses.
 - iii. Revenues less Expenses. Net income for a positive result and net loss for a negative result

Note: is the comprehensive discussion of the SCI. A simpler SCI can be found after the discussion.

**HAPPY SELLING COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016**

→ **HEADING**

Sales		Php 500,000.00
Sales Returns	(Php 30,000.00)	
Sales discounts	(10,000.00)	(40,000.00)
NET SALES		Php 460,000.00

→ **CONTRA REVENUE**

Cost of Goods Sold		
Beginning Inventory		
Net Cost of Purchases	Php 250,000.00	
Purchases	Php 100,000.00	
Purchase Returns	(20,000.00)	
Purchase Discounts	(10,000.00)	
Net Purchases	70,000.00	
Freight In	15,000.00	85,000.00
Cost of Goods Available for Sale		335,000.00
Ending Inventory	(50,000.00)	(285,000.00)
Gross Profit		Php 175,000.00

→ **COST OF GOODS SOLD**

→ **GENERAL AND ADMINISTRATIVE EXPENSES**

General & Administrative Expenses		
Salaries Expense	(Php 20,000.00)	
Rent Expense	(15,000.00)	
Depreciation Expense	(10,000.00)	
Utilities Expense	(5,000.00)	
Miscellaneous Expense	(1,000.00)	(51,000.00)

Gross Profit		Php 175,000.00
General & Administrative Expenses	→ GENERAL AND ADMINISTRATIVE EXPENSES	
Salaries Expense	(Php 20,000.00)	
Rent Expense	(15,000.00)	
Depreciation Expense	(10,000.00)	
Utilities Expense	(5,000.00)	
Miscellaneous Expense	(1,000.00)	(51,000.00)
Selling Expenses	→ SELLING EXPENSES	
Salaries Expense	(Php 10,000.00)	
Rent Expense	(8,000.00)	
Depreciation Expense	(7,000.00)	
Utilities Expense	(6,000.00)	(31,000.00)
Net Income		Php 93,000.00

c. Sample of a multi-step SCI

i. First part is sales

This is the total amount of revenue that the company was able to generate from selling products

ii. Second part compose of contra revenue – called contra because it is on the opposite side of the sales account. The sales account is on the credit side while the reductions to sales accounts are on the debit side. This is “contrary” to the normal balance of the sales or revenue accounts. (Haddock, Price, & Farina, 2012)

ii.i. **Sales returns** – This account is debited in order to record returns of customers or allowances for such returns.(Haddock, Price, & Farina, 2012) Sales returns occur when customers return their products for reasons such as but not limited to defects or change of preference.

ii.ii. **Sales discount** – This is where discounts given to customers who pay early are recorded. (Haddock, Price, & Farina, 2012) Also known as cash discount. This is different from trade discounts which are given when customers buy in bulk. Sales discount is awarded to customers who pay earlier or before the deadline.

- iii. Sales less Sales returns and Sales discount is Net Sales
- iv. Third part is Cost of Goods Sold – This account represents the actual cost of merchandise that the company was able to sell during the year. (Haddock, Price, & Farina, 2012)
 - iv.i. Beginning inventory – This is the amount of inventory at the beginning of the accounting period. This is also the amount of ending inventory from the previous period.
 - iv.ii. Net Cost of Purchases = Purchases + Freight In
 - iv.ii.i. Net Purchases = Purchases – (Purchase discount and purchase returns)
 - iv.ii.i.i. **Purchases** – amount of goods bought during the current accounting period.
 - iv.ii.i.ii. **Contra Purchases** – An account that is credited being “contrary” to the normal balance of Purchases account.
 - iv.ii.i.iii. **Purchase discount** – Account used to record early payments by the company to the suppliers of merchandise. (Haddock, Price, & Farina, 2012)
This is how buyers see a sales discount given to them by a supplier.
 - iv.ii.i.iii.ii. **Purchase returns** – Account used to record merchandise returned by the company to their suppliers. (Haddock, Price, & Farina, 2012) This is how buyers see a sales return recorded by their supplier
 - iv.ii.ii. **Freight In** – This account is used to record transportation costs of merchandise purchased by the company. (Haddock, Price, & Farina, 2012) Called freight in because this is recorded when goods are transported into the company.
 - iv.iii. Add Beginning inventory and Net cost of Purchases to get Cost of Goods Available for Sale
 - iv.iv. Ending inventory – amount if inventory presented in the Statement of Financial Position.
Total cost of inventory unsold at the end of the accounting cycle.
- v. Sales less Cost of Goods Sold is Gross Profit
- vi. Fourth Part is **General and Administrative Expenses** – These expenses are not directly related to the merchandising function of the company but are necessary for the business to operate effectively. (Haddock, Price, & Farina, 2012)
- vii. Fifth Part is **Selling Expenses** – These expenses are those that are directly related to the main purpose of a merchandising business: the sale and delivery of merchandise. This does not include cost of goods sold and contra revenue accounts. (Haddock, Price, & Farina, 2012)
- viii. Gross Profit less General and Administrative Expenses less Selling Expenses is Net Income for a positive result while Net Loss for a negative result

Teacher Tips:

Book definition can be used but it is better to provide them a keyword or explain to learners that the terms usually denote the meaning already like “Cost of Goods Sold” – cost of the goods that were sold which is different from cost of goods purchased. Teacher can also use native words such as *benta* (Sales), *puhunan sa benta* (Cost of Goods Sold).

Teacher should differentiate “Net Cost of Purchases” which contain the Freight In with “Net Purchases” which does not yet include Freight In

Teacher Tips:

Teacher should take note of the difference of expenses that appear in both the general and administrative expenses and the selling expenses (examples include salaries, depreciation, etc.)

Some learners might be confused between reduction to sales and selling expenses as they are both related to the selling of goods.

Example of general and administrative expenses include utilities for home office, salaries of admin personnel

Examples of selling expenses include sales commissions, delivery expenses, advertising expense

Simpler SCl:

**HAPPY SELLING COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016**

NET SALES		Php 460,000.00
Cost of Goods Sold		(285,000.00)
Gross Profit		Php 175,000.00
<hr/>		
General & Administrative Expenses		
Salaries Expense	(Php 20,000.00)	
Rent Expense	(15,000.00)	
Depreciation Expense	(10,000.00)	
Utilities Expense	(5,000.00)	
Miscellaneous Expense	(1,000.00)	(51,000.00)
<i>Selling Expenses</i>		
Salaries Expense	(Php 10,000.00)	
Rent Expense	(8,000.00)	
Depreciation Expense	(7,000.00)	
Utilities Expense	(6,000.00)	(31,000.00)
Net Income		Php 93,000.00
<hr/>		

ALTERNATIVE TEACHING METHOD AFTER LECTURE

A. Activity on Classification of accounts

1. Materials needed:

Sheets of Paper (teacher can decide the number)

Scissors (optional)

2. Learners should be grouped into 3 groups

3. 1st group is given a scissor and sheets of paper

4. Ask the group to cut the sheets of paper to produce 5 paper boats (can vary) with a hypothetical cost of 5 pesos each (can be prepared beforehand – teacher can ask the learners to prepare this at home)

5. The other 2 are given sheets of paper and transform the sheets into play money (can be prepared beforehand – teacher can ask the learners to prepare this at home)

6. The groups with the paper boats will “sell” them to the other group with the play money at an amount that the group will decide. In turn, the group who bought from the boats from the first group will sell these boats to group 3. Only one member will sell the boats. Others can do admin tasks (if any).

7. After the sale, the 2nd group will distribute the cash to each member as salary.

8. The discussion will focus on the 2nd group. Teacher can ask them how they classify the cost of the boats, the salary of the one selling the boats and the salary of those doing admin tasks.

B. Activity on Understanding Cost of Goods Sold

1. Materials needed:

Pencils

2. Teacher brings 10 pencils to class and ask 9 learners to hold one each. The last pencil is held by the teacher.

3. Teacher asks the learners “As of now, how many pencils do I have?” Learners answer, “One”

4. Teacher asks one of the learners to give his/her pencil to him/her

5. Teacher asks the learners again “As of now, how many pencils do I have?” Learners answer, “Two”

6. Repeat steps 4 and 5 to get all pencils

7. Teacher gives 5 pencils to one learner and repeats step 5.

8. Teacher now relates the first pencil to beginning inventory, step 4 as purchases, total pencils as cost of goods available for sale, remaining pencils as ending inventory and the pencils given to cost of goods sold.

C. Real life examples

1. The teacher can ask learners to group themselves into groups of 5.

2. Each group can be asked to identify a business establishment in their area (example: sari-sari store, canteen, laundry shop)
3. The other groups should be able to identify the different accounts that the businesses can use in preparing their Statement of Comprehensive Income
4. Teacher should point out whether the learners answers are correct or not (example: a laundry shop does not have sales, sales returns and discounts because it is a service company)
5. Teacher can provide hypothetical amounts and ask learners to actually prepare the statements of their chosen companies.

PRACTICE (30 MINS)

At least 5 Easy questions can focus on single-step approach SCI and the general and administrative expenses and selling expenses parts of the multi-step SCI. Computation of net income/loss and definition of terms are also part of the easy questions.

At least 5 Medium questions can focus on the computation of net sales, net purchases, net cost of purchases, cost of goods available for sale and Cost of Goods Sold.

At least 5 Difficult questions can focus on computation of elements within the Cost of Goods Sold wherein the Cost of Goods Sold is given or the net income is given.

Teacher can ask the class to go back to their groups and give account titles with amounts for the groups to prepare the SCI. The groups can discuss the results of their group discussions after.

Sample questions:

Easy:

1. Learning is Fun Company generated revenues amounting to Php 100,000. Expenses for the year totaled Php 76,000. How much is the company's net income for the year?
Answer: P24,000.

Teacher Tips:

Teacher should be able to shuffle the given and the missing item to promote critical thinking among the learners.

2. Happy Selling Company's salaries to sales agents amounted to Php 10,000. Salaries of accountants amounted to Php 20,000. No other expenses were incurred. How much is the company's general and administrative expense?

Answer: P20,000.

Medium:

1. Happy Selling's beginning inventory amounted to 250,000. Net purchases amounted to 70,000. Freight In totaled 15,000. Compute for the company's cost of goods available for sale.

Answer: P335,000.

2. Happy Selling's Sales amounted to Php 500,000. Sales returns and sales discounts amounted to Php 30,000 and Php 10,000 respectively. Purchases of the company totaled Php 100,000 while purchase returns and purchase discounts amounted to Php 20,000 and Php 10,000 respectively. How much is the company's Net Sales? Net Purchases?

Answer: Net sales - P460,000; Net Purchases - P70,000

Difficult

1. Company's Cost of Goods Sold amounted to Php 285,000. Net cost of purchases totaled Php 85,000. Beginning inventory amounted to Php 250,000. Sales amounted to Php 500,000. Compute for the company's Ending Inventory.

Answer: P50,000.

2. Gross profit of Happy Selling amounted to Php 175,000. Beginning Inventory totaled Php 250,000. Ending Inventory amounted to Php 50,000 while Net Cost of Purchases totaled Php 85,000. Compute for Happy's Net Sales.

Answer: P460,000

ENRICHMENT (30 MINS)

1. Teacher can discuss how a company can earn without having cash and lose even with lots of cash.
 - a. Company can still have net income without cash transactions due to accrued income
 - A sari-sari store who sells a lot of merchandise but majority of the sales are on credit. High net

Teacher Tips:

Teachers should be able to appreciate the use of the SCI personally to be able to impart the same appreciation to the learners. The teacher can prepare his/her own SCI.

income, low cash balance.

- b. Company can still have net loss with a lot of cash revenues due to depreciation and accrued expense
 - We always see a lot of people buying from Jollibee/Mcdo using cash but a new branch can still have net loss due to the depreciation expense of its building/equipment.

2. Other important matters:

- a. Discuss that without the SCI, the company cannot truly know if it is earning. The teacher can also use examples above or go ahead with the following:
 - Small businesses don't usually account for their revenues and expenses as long as the owners see that cash is coming in. They sometimes forget that equipment is depreciated and some expenses are accrued.
- b. Discuss the importance of the format:
 - i. Single-Step vs Multi-Step and why is single-step more often used in service companies while multi-step is more often used in merchandising companies (service companies don't have inventories)
 - ii. Use of reduction to sales and contra purchases (contra accounts are used to easily determine those accounts that are directly connected to sales and purchases. These can also be used as a determinant of quality –sales returns and purchase returns)
 - iii. Separation of the General and Administrative Expenses with the Selling Expenses (companies can know how to reduce expenses and increase net income by pin pointing which expense is very high)

EVALUATION (120 MINS)

2 quizzes

- 1. Quiz on the basic info about SCI and single-step format. This should include theory questions, problem solving questions and preparation of SCI for a service business (single-step) format.
- 2. Quiz on the multi-step format. This should include theory questions, problem solving questions and preparation of SCI for a merchandise business (multi-step) format.

Teacher Tips:

Teacher can use the format of the practice questions and change values but it is better to prepare new questions using same concept. Some questions need not be straight forward.

Aside from the ones provided in the practice section, the teacher can make use of the following sample questions:

1. At the end of the first month of operations for Juan's Service Company, the business had the following accounts: Cash, Php19,000; Prepaid Rent, Php500; Equipment, Php5,000 and Accounts Payable Php2,000. By the end of the month, Jackson's had earned Php20,000 of Revenues, Php1,000 of Utilities Expenses and Php1,500 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.

Answer: Php 17,500 (Topic: Calculation of net income)

2. During October, a sari-sari store had the following transactions involving revenue and expenses. Did the firm earn a net income or incur a net loss for the period? What was the amount?

Paid Php1,200 for rent

Provided services for Php2,750 in cash

Paid Php250 for telephone service

Provided services for Php1,900 on credit

Paid salaries of Php1,675 to employees

Paid Php350 for office cleaning service

Answer: Net income P 1,175 (Topic: Calculation of Net Income)

3. Compute for the Cost of Goods Sold using the following:

Sales – 15,000

Purchases – 2,000

Purchase returns – 200

Purchase discounts – 200

Freight in – 100

Beginning inventory – 1,000

Ending inventory – 500

Answer: P2,200 (Topic: Calculation of cost of goods sold)

4. Prepare a single-step Statement of Comprehensive Income using the following:

Revenues – 20,000

Rent expense – 3,000

Salaries expense – 4,000

Utilities expense – 2,000

Learners can use any business name and the end of the current year for the heading.

Suggested Answer: (Topic: Preparation of financial statement)

COMPANY NAME STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR (YEAR-END)		
Revenues		P 20,000
Expenses:		
Rent Expense	P 3,000	
Salaries Expense	4,000	
Utilities Expense	2,000	9,000
Net Income		P 11,000.00

5. Prepare a multi-step Statement of Comprehensive Income using the following:

Sales – 20,000

Cost of Goods Sold – 10,000

General and administrative expenses – 4,000

Selling expenses – 2,000

Learners can use any business name and the end of the current year for the heading.

Suggested Answer: (Topic: Preparation of financial statement)

COMPANY NAME STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR (YEAR-END)		
Sales		P 20,000
Cost of Goods Sold		10,000
Gross Profit		P 10,000
General and Administrative Expenses		4,000
Selling Expenses		2,000
Net Income		P 4,000

6. Nena had the following expense accounts for the year ended December 31, 2016:

- A. Salaries of admin personnel
- B. Salaries of janitors
- C. Salaries of sales agents
- D. Utilities of home office
- E. Rent of office building
- F. Depreciation of office equipment
- G. Depreciation of delivery van
- H. Advertising
- I. Cost of merchandise sold during the year

Identify if the account is part of the general and administrative expenses or selling expenses

Suggested Answer: (Topic: Classification of accounts)

a. Salaries of admin personnel	General and Admin
b. Salaries of janitors	General and Admin
c. Salaries of sales agents	Selling
d. Utilities of home office	General and Admin
e. Rent of office building	General and Admin
f. Depreciation of office equipment	General and Admin
g. Depreciation of delivery van	Selling
h. Advertising	Selling
i. Cost of merchandise sold during the year	N/A (Cost of goods sold)

Appendix

- (1) Haddock, M., Price, J., & Farina, M. (2012). *College Accounting: A Contemporary Approach, Second Edition*. New York: McGraw-Hill/Irwin.
- (2) Valencia, E. G., & Roxas, G. F. (2010). *Basic Accounting* (3rd ed.). Mandaluyong City, Philippines: Valencia Educational Supply.

Statement of Changes in Equity (SCE)

Content Standards

The learners demonstrate an understanding of the forms of business organization, namely, single/sole proprietorship, partnership, and corporation, and the structure of a SCE of a single/sole proprietorship that will equip him/her in the preparation of the said financial report.

Performance Standards

The learners shall be able to solve exercises and problems that require preparation of SCE for a single/sole proprietorship.

Learning Competencies

The learners should be able to:

1. discuss the different forms of business organization **(ABM_FABM12-le-8)**
2. prepare an SCE for single/sole proprietorship **(ABM_FABM12-le-9)**

Specific Learning Outcomes

At the end of the topic, learners should be able to:

1. reflect on the importance of preparing the SCE
2. reflect on the differences among a single/sole proprietorship, partnership and corporation
3. reflect on the use of capital and drawing accounts

LESSON OUTLINE

Introduction/Review	Communicating learning objectives and reviewing the income and expenses in the Statement of Comprehensive Income (SCI) and the equity portion of the Statement of Financial Position (SFP)	25
Motivation	Computing a learner's personal equity and differentiating it from assets and income	15
Instruction/Delivery	Instruct learners about the elements of the SCE	50
Practice	Identifying elements of the SCE and differentiating among single/sole proprietorship, partnership and corporation	30
Enrichment	Let the learners reflect on the importance among a company's equity, asset and income and what it means to the company	30
Evaluation	Problem solving questions and preparation of SCE	30
Materials	Chalk and blackboard or LCD with laptop (powerpoint) or acetates	
Resources	See appendix	

INTRODUCTION (5 MINS)

A. Communicate learning objectives

At the end of the topic, I should be able to

1. Identify the elements of the SCI and describe each of these items for a service business and a merchandising business
2. Prepare an SCI for a service business using the single-step approach
3. Prepare an SCI for a merchandising business using the multi-step approach

B. Present terms

At the end of this topic, I should be able to define the following terms:

1. Statement of Changes in Equity
4. Initial Investment
 1. Additional Investment
 2. Withdrawal or Distribution of Income
 3. Capital
 4. Drawing

Teacher Tips:

Learners might not be able to remember the terms especially accruals due to time gap between Grade 11 (ABM 1) and Grade 12 (ABM 2). Be ready to define terms and give examples to make learners remember.

REVIEW (20 MINS)

1. Ask the learners if they can still remember the following terms:
 - a. Revenues
 - b. Expenses
 - c. Income
 - d. Assets
 - e. Liabilities
 - f. Equity
2. Write learners' answers on the board as they cite them even if there are wrong answers and differentiate them one by one
3. Ask the learners to give specific account titles for each of the terms above and give examples of

service businesses and merchandising businesses

- a. Revenues – service income, sales
- b. Expenses – salaries expense, depreciation expense
- c. Income – revenues less expenses (amount found at the bottom of the SCI)
- d. Assets – inventories, prepaid expenses, property, plant and equipment
- e. Liabilities – accounts payable, unearned income, long-term debt,

MOTIVATION (15 MINS)

1. Compute a learner's personal equity (already done during discussion of SFP):
 - a. Ask the learners to get a ¼ piece of paper (any paper will do if they don't have a ¼ sheet)
 - b. Ask them to write their assets (anything they own)
 - c. Ask them to write their liabilities (friends, family members, parents - tuition)
 - d. Tell learners to deduct their liabilities from their assets with the net amount computed designated as equity
2. Discuss the importance of the SCE:
 - a. Differentiate assets, income and equity
 - b. Tell the learners that a business can still earn, have a lot of assets but also have a very small equity because of a lot of liabilities. This means that the owner of the business only has a very small claim over the company's assets and income.

INSTRUCTION/DELIVERY (130 MINS)

1. Define the term Statement of Changes in Equity and differentiate the forms of businesses (single/sole proprietorship, partnership and corporation)

STATEMENT OF CHANGES IN EQUITY – All changes, whether increases or decreases to the owner's interest on the company during the period are reported here. This statement is prepared prior to preparation of the Statement of Financial Position to be able to obtain the ending balance of the equity to be used in the SFP. (Haddock, Price, & Farina, 2012).

Teacher Tips:

There might be some cases that the result of the learner's computation is zero or even negative. Ask the learner to review the computation and if it is negative, ask where the learner gets the difference (lending from classmates, friends).

Teacher Tips:

The teacher should be able to emphasize that the different forms of business discussed here is based on ownership and not activity (service, merchandising, and manufacturing).

SINGLE/SOLE PROPRIETORSHIP –An entity whose assets, liabilities, income and expenses are centered or owned by only one person (Haddock, Price, & Farina, 2012).

PARTNERSHIP – An entity whose assets, liabilities, income and expenses are centered or owned by two or more persons (Haddock, Price, & Farina, 2012).

CORPORATION – An entity whose assets, liabilities, income and expenses are centered or owned by itself being a legally separate entity from its owners. Owners are called shareholders or stockholders of the company(Haddock, Price, & Farina, 2012).

2. Provide a sample SCE to the learners (powerpoint or acetate or hard copy) as an overview. Teacher can use the sample below or find a new one.

**LEARNING IS FUN COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016**

Owner*, Capital, January 1, 2016	P100,000	
Add:		
Net income for the year 2016	P50,000	
Additional investment	25,000	75,000
Sub-total		P175,000
Less: Withdrawals for the year		30,000
Owner*, Capital, December 31, 2016		P145,000

3. Differentiate the initial investment from the additional investments and define withdrawals

Initial Investment – The very first investment of the owner to the company.

Additional Investment – Increases to owner's equity by adding investments by the owner(Haddock, Price, & Farina, 2012).

Withdrawals –Decreases to owner’s equity by withdrawing assets by the owner (Haddock, Price, & Farina, 2012).

***Distribution of Income** – When a company is organized as a corporation, owners (called shareholders) do not decrease equity by way of withdrawal. Instead, the corporation distributes the income to the hareholders based on the shares that they have (percentage of ownership of the company)

<div> <div>HEADING</div> <div> LEARNING IS FUN COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016 </div> </div>		
	Owner*, Capital, January 1, 2016	P100,000
	Add:	
<div> <div>INCREASES TO EQUITY</div> </div>	Net income for the year 2016	P50,000
	Additional investment	25,000 75,000
	Sub-total	P175,000
<div> <div>DECREASES TO EQUITY</div> </div>	Less: Withdrawals for the year	30,000
	Owner*, Capital, December 31, 2016	P145,000

Teacher Tips:

The teacher can explain the use of “for the” by telling learners that amounts in the SCE are changes during the period. This means that what happened in the previous years are not included in the Statement.

4. Point out different parts of the Statement of Changes in Equity

- a. Heading
 - i. Name of the Company
 - ii. Name of the Statement
 - iii. Date of preparation (emphasis on the wording – “for the”)
- b. Increases to Equity
 - i. Net income for the year
 - ii. Additional investment

- c. Decreases to Equity
 - i. Net loss for the year
 - ii. Withdrawals by the owner

5. Statement of Changes in Equity of a Partnership and a Corporation

LEARNING IS FUN COMPANY STATEMENT OF CHANGES IN PARTNERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016				→ HEADING
	Partner A	Partner B	Total	
Capital, January 1, 2016	P 100,000	P 150,000	P 250,000	
Add:				
Net Income 2016	25,000	25,000	50,000	← INCREASES TO EQUITY
Additional Investment	50,000	20,000	70,000	
Sub-total	P 175,000	P 195,000	P 370,000	
Less: Withdrawals	100,000	100,000	200,000	← DECREASES TO EQUITY
Capital, December 31, 2016	P 75,000	P 95,000	170,000	

The Statement of Changes in Partners' Equity is used by a partnerships instead of the Statement of Changes in Owner's Equity. The differences between the two are as follows:

- a. Title – instead of owner's, partners' is used to denote that this is a partnership
- b. There are two or more owners in a partnership thus, the changes in the capital account of each partner is presented
- c. The net income is divided between partners (not always equal. Based on the agreement. Example: 60:40, 40:60, etc.)

LEARNING IS FUN COMPANY
STATEMENT OF CHANGES IN PARTNERS' EQUITY → **HEADING**
FOR THE YEAR ENDED DECEMBER 31, 2016

Capital, January 1, 2016		P 1,000,000.00
Share Issuance	→ INCREASES TO EQUITY	500,000
Net Income 2016		150,000
Distribution of Income	→ DECREASES TO EQUITY	(100,000)
Capital, December 31, 2016		<u>P 1,550,000</u>

The Statement of Changes in Shareholders' Equity is used by a corporation instead of the Statement of Changes in Owner's Equity. The differences between the two are as follows:

- Title – instead of owner's, shareholders' is used to denote that this is a corporation
- There are an unlimited number of shareholders but unlike the partnership, the names of the shareholders are not indicated here. Instead, the corporation keeps an official list with the corporate secretary
- The capital account is called share capital (just like owner's being shareholders)
- Instead of additional investment, share issuances (happens when shares are sold to shareholders) increases the share capital of a corporation
- Instead of withdrawals, distribution of net income to shareholders decreases the Capital of the corporation

PRACTICE (30 MINS)

At least 5 Easy questions can focus on the terms learned during the lesson.

At least 5 Medium questions can focus on the differentiation between the items that increase equity and those that decrease equity.

At least 5 Difficult questions can focus on computation of elements of the SCE.

Teacher Tips:

Teacher should be able to shuffle the given and the missing item to promote critical thinking among the learners.

Sample questions:

Easy:

1. Which form of business organization puts the least risk on its owners?

Answer: Corporation

2. Which form of business organization is owned by only one person?

Answer: Single/Sole Proprietorship

Average:

1. Increases in owner's equity without additional investment

Answer: Net income

2. Decreases to owner's equity apart from net effect of revenues and expenses.

Answer: Withdrawal or Distribution of Income

Difficult

1. Beginning owner's equity amounted to P 300,000. Net loss for the year totaled P 45,000. No additional investments and withdrawals for the period. Compute for total increase in equity for the year.

Answer: Increase is zero but decrease is P 45,000.

2. Ending owner's equity amounted to P70,000. Additional investments during the year amounted to P30,000. Withdrawals totaled P50,000. Compute for the company's net income for the year assuming beginning equity is P10,000.

Answer: P80,000

ENRICHMENT (30 MINS)

Teacher can discuss how a company can earn a lot, have numerous assets and yet have very small equities. This is a common mistake of most people. They focus on increasing their income (salary) and assets (house, car, appliances) but at the same time they also increase their liabilities (buying using

Teacher Tips:

Teachers should be able to appreciate the use of the SCE personally to be able to impart the same appreciation to the learners. The teacher can prepare his/her own SCE.

loans, debts). This results to low levels or even negative amounts of equity over their properties. Teacher should be able to impart the importance of also taking note of how much equity do owners have over the company assets or even over their own personal belongings.

EVALUATION (30 MINS)

1 quiz: Quiz on the preparation of SCE. Given all amounts, ask learners to prepare an SCE.

Sample questions:

Aside from the ones provided in the practice section, the teacher can make use of the following sample questions:

1. Decreases in equity aside from withdrawals of the owners
Answer: Net loss (Topic: Items in the Statement of Changes in Equity)
2. A type of business that is owned by at least 2 persons.
Answer: Partnership (Topic: Kinds of Business according to Ownership)
3. Owner, Juan invested an initial capital amounting P50,000 in order to put up his janitorial services company. During the first year of operations (2016), the company had a loss of P25,000. Because of this, Juan invested additional capital amounting to P50,000 in 2017. In the second year (2017), the company had a net income of P100,000 and Juan withdrew P10,000 for personal use. Compute for the ending capital balance of Juan for the year 2017.
Answer: P165,000 (Topic: Ending Balance in the Statement of Changes in Equity)
4. Owner Juana invested P100,000 to start her laundry business. During the first year of operations (2016), the company had a net income of P15,000. Juana invested additional P100,000 to grow the business. In 2017, the business earned P50,000. As of December 31, 2017, Juana's capital balance is P200,000. How much is Juana's withdrawal?
Suggested Answer: P65,000 (Topic: Amounts in the Statement of Changes in Equity)

Teacher Tips:

Teacher can use the format of the practice questions and change values but it is better to prepare new questions using same concept. Some questions need not be straight forward.

5. In the Statement of Changes in Equity, the company had decreases in capital wherein income is distributed to owners. Identify the kind of business.

Suggested Answer: Corporation (Topic: Kinds of Business according to Ownership)

6. The following balances were retrieved from the records of Juan's Janitorial Services for the year ended December 31, 2016:

Capital, January 1, 2016	P 500,000
Withdrawals	100,000
Additional Investments	50,000
Net Loss	45,000

Prepare the Statement of Changes in Equity

Suggested Answer: (Topic: Topic: Preparation of the Statement of Changes in Owner's Equity)

**JUAN'S JANITORIAL SERVICES
STATEMENT OF CHANGES IN PARTNERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016**

Juan Capital, January 1, 2016		P 500,000
Add:		
Additional Investment		50,000
Sub-total		P 550,000
Less:		
Net Loss 2016	P 45,000	
Withdrawals for the year	30,000	75,000
Juan, Capital, December 31, 2016		P 475,000

Appendix

- (1) Haddock, M., Price, J., & Farina, M. (2012). *College Accounting: A Contemporary Approach, Second Edition*. New York: McGraw-Hill/Irwin.
(2) Valencia, E. G., & Roxas, G. F. (2010). *Basic Accounting* (3rd ed.). Mandaluyong City, Philippines: Valencia Educational Supply.

Cash Flow Statement (CFS)

Content Standards

The learners demonstrate an understanding of the components and the structure of a CFS that will help him/her in the preparation of the said financial report

Performance Standards

The learners shall be able to solve exercises and problems that require preparation of CFS

Learning Competencies

The learners should be able to:

1. discuss the components and structures of a CFS (**ABM_FABM12-If-10**)
2. prepare a CFS (**ABM_FABM12-If-11**)

Specific Learning Outcomes

At the end of the topic, learners should be able to:

1. reflect on the importance of preparing the CFS
2. reflect on the difference of the two approaches (direct and indirect)

LESSON OUTLINE

Introduction/ Review	Communicating learning objectives and reviewing non-cash transactions (accruals, depreciation, doubtful accounts)	25
Motivation	Preparing a personal CFS using allowance and expenses. Discussing the importance of the CFS and its difference with the Statement of Comprehensive Income (SCI)	15
Instruction/ Delivery	Instruct learners about the elements of the CFS and the difference between the direct approach and the indirect approach	50
Practice	Identifying the elements of the CFS and differentiating between the direct and indirect approach	30
Enrichment	Let the learners reflect on the importance of the CFS to their personal transactions	30
Evaluation	Problem solving questions and preparation of CFS	30
Materials	Chalk and blackboard or LCD with laptop (powerpoint) or acetates	

Resources

Deloitte Global Services Limited. (2015, December 16). IAS 7 - Statement of Cash Flows. Retrieved from IAS Plus: <http://www.iasplus.com/en/standards/ias/ias7>
 Valencia, E.G. & Roxas, G.F. (2010). Basic Accounting (3rd ed.). Mandaluyong city, Philippines: Valencia Educational Supply.

INTRODUCTION (5 MINS)

A. Communicate learning objectives

At the end of the topic, I should be able to

1. Discuss the components and structures of a CFS
2. Prepare a CFS

B. Present terms

At the end of this topic, I should be able to define the following terms:

1. Cash Flow Statement
2. Direct Approach
3. Indirect Approach
4. Operating Activities
5. Investing Activities
6. Financing Activities

Teacher Tips:

Learners might not be able to remember the terms especially accruals due to time gap between Grade 11 (ABM 1) and Grade 12 (ABM 2). Be ready to define terms and give examples to make learners remember.

REVIEW (20 MINS)

1. Ask the learners if they can still remember the following terms:
 - a. Accrual
 - b. Depreciation
2. Write learners' answers on the board as they cite them even if there are wrong answers and differentiate them one by one
3. Ask the learners to give specific account titles for each of the terms above and give examples of service businesses and merchandising businesses
 - a. Accrual – accrued income, accrued expense
 - b. Depreciation – equipment, furniture, building

MOTIVATION (15 MINS)

1. Prepare a Personal CFS:
 - a. Ask the learners to get a $\frac{1}{4}$ piece of paper (any paper will do if they don't have a $\frac{1}{4}$ sheet)
 - b. Ask them to write their monthly allowance (computed by daily allowance x number of days in a month) and any liabilities that they got from classmates, friends, family members
 - c. Ask them to write the amount they spend on food, transportation, etc. (make it monthly to match their allowance)
 - d. Tell learners to deduct the amount they spend from the amount their allowance
 - e. Associate allowance with inflows and spending with outflows
 - f. Tell learners that this is different from the SCI as the SCI will include non-cash items (accruals, depreciation) while the CFS will only include cash items
2. Discuss the importance of the SCI:
 - a. Reinforce the difference between accrued income/expense with cash transactions
 - b. Tell the learners that a business can have a lot of cash even with a net loss

Teacher Tips:

There might be some cases that the result of the learner's computation is zero or even negative. Ask the learner to review the computation and if it is negative, ask where the learner gets the difference since cash cannot be negative.

If the learner does not have a regular allowance, the teacher can ask him/her to give an estimate.

INSTRUCTION/DELIVERY (50 MINS)

1. Define the term Cash Flow Statement

Teacher Tips:

Teachers can visit youtube.com and view this link: <https://www.youtube.com/watch?v=mhmaHayMha8> for reference.

CASH FLOW STATEMENT – Provides an analysis of inflows and/or outflows of cash from/to operating, investing and financing activities (Deloitte Global Services Limited, 2015). This statement shows cash transactions only compared to the SCI which follows the accrual principle.

Importance: The CFS provides the net change in the cash balance of a company for a period. This helps owners see if their revenues are actually translated to cash collections or if they have enough cash inflows in order to pay any maturing liabilities.

2. Provide a sample CFS to the learners (powerpoint or acetate or hard copy) as an overview. Teacher can use the sample below or find a new one.

**LEARNING IS FUN COMPANY
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash flows from Operating Activities	
Receipts from Customers	P 1,000,000
Payments to Suppliers and Employees	(700,000)
Net Cash generated by Operating Activities	P 300,000
Cash flows from Investing Activities	
Purchases of Property and Equipment	(P 150,000)
Net Cash used in Investing Activities	(P 150,000)
Cash flows from Financing Activities	
Long term loan from a bank	P 300,000
Additional investment from owner	100,000
Withdrawals by owner	(80,000)
Net cash generated by Financing Activities	P 320,000
Net increase in cash and cash equivalents	P 470,000
Cash, January 1, 2016	100,000
Cash, December 31, 2016	P 580,000

- a. Receipts from customers - derived from the following formula:

$$\text{Ending Accounts Receivable} = \text{Beginning Accounts Receivable} + \text{Net Sales} - \text{Collections}$$

$$\text{Therefore: Collections (receipts from customers)} = \text{Beginning Accounts Receivable} + \text{Net Sales or Net Revenue} - \text{Ending Accounts Receivable}$$

Accounts Receivable T-Account	
Dr	Cr
Beginning Balance + Net Sales	Collections
Ending Balance	

b. Payments to Suppliers and Employees – derived from the following formula:

Ending Accounts Payable and Ending Accrued Salaries Expense = Beginning Accounts Payable +
Beginning Accrued Salaries Expense + Net Purchases + Salaries Expense - Payments

Therefore: Payments = Beginning Accounts Payable + Beginning Accrued Salaries Expense + Net
Purchases + Salaries Expense – Payments

Accounts Payable T-Account	
Dr	Cr
Payments	Beginning Balance + Net Purchases + Salaries Expense
	Ending Balance

Teacher Tips:

The teacher can explain the use of “for the” by telling learners that amounts in the CFS are those changes for the year only.

3. Differentiate the Direct and Indirect Approach of the CFS

Direct – The operating cash flow section of the CFS under the direct method would show each major class of gross cash receipts and gross cash payments (Deloitte Global Services Limited, 2015).

Indirect – The operating cash flow section of the CFS under the indirect method will reconcile the net income/loss of the company with the total cash flows generated/used in operating activities by adjusting the net income/loss for effects of non-cash transactions (Deloitte Global Services Limited, 2015).

Emphasize that the two are only approaches and will yield the same amount of cash flow from

operating activities. Note that the Investing and Financing sections of the CFS are the same under the two approaches.

4. Point out different parts of the Cash Flow Statement

Operating Activities – Activities that are directly related to the main revenue-producing activities of the company such as cash from customers and cash paid to suppliers/employees (Deloitte Global Services Limited, 2015).

Investing Activities – Cash transactions related to purchase or sale of non-current assets (Deloitte Global Services Limited, 2015).

Financing Activities – Cash transactions related to changes in equity and borrowings.

Net change in cash or net cash flow (increase/decrease) – The net amount of change in cash whether it is an increase or decrease for the current period. The total change brought by operating, investing and financing activities.

Beginning Cash Balance – The balance of the cash account at the beginning of the accounting period.

Ending Cash Balance – The balance of the cash account at the end of the accounting period computed using the beginning balance plus the net change in cash for the current period.

<div> <div>LEARNING IS FUN COMPANY</div> <div>CASH FLOW STATEMENT</div> <div>FOR THE YEAR ENDED DECEMBER 31, 2016</div> </div>		HEADING
Cash flows from Operating Activities		OPERATING ACTIVITIES
Receipts from Customers	P 1,000,000	
Payments to Suppliers and Employees	(700,000)	
Net Cash generated by Operating Activities	P 300,000	
Cash flows from Investing Activities		INVESTING ACTIVITIES
Purchases of Property and Equipment	(P 150,000)	
Net Cash used in Investing Activities	(P 150,000)	

Cash flows from Financing Activities		FINANCING ACTIVITIES
Long term loan from a bank	P 300,000	
Additional investment from owner	100,000	
Withdrawals by owner	(80,000)	
Net cash generated by Financing Activities	P 320,000	
Net increase in cash and cash equivalents	P 470,000	
Cash, January 1, 2016	100,000	
Cash, December 31, 2016	P 580,000	

Teacher Tips:

Some learners might be confused with deducting/adding back non-cash transactions and deducting/adding back changes in current assets and current liabilities. Teacher should be able to explain that the cash flow statement should only include cash transactions and that the net income/loss of the company can contain non-cash transactions such as depreciation. Changes in current assets and liabilities are included if they are related to revenues and expenses which were included in the net income/loss even if they were non-cash transactions or they affected cash but was not part of the net income/loss (accruals, prepaid, unearned).

The teacher can explain that the indirect method is derived from the following formula:

Cash Balance Beginning + Collections – Payments = Cash Balance Ending

Where: Collections = Beginning Trade and Other Receivables + Net Sales or Net Revenues – Ending Trade and Other Receivables

Where: Net Sales or Net Revenues is already included in the Net Income

Thus: Collections = Beginning Trade and Other Receivables – Ending Trade and Other Receivables

- a. Heading
 - i. Name of the Company
 - ii. Name of the Statement
 - iii. Date of preparation (emphasis on the wording – “for the”)
- b. Sample of the Direct Method
 - i. First part is operating activities
 - ii. Second part is investing activities
 - iii. Third part is financing activities

LEARNING IS FUN COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from Operating Activities		OPERATING ACTIVITIES
Net Income	P 250,000	
Add back: Depreciation	20,000	
Loss on sale of property and equipment	10,000	
	P 280,000	
(Increase)/Decrease in Trade and Other Receivables - Net	(40,000)	
Increase/(Decrease) in Trade and Other Payables	60,000	
Net cash generated by Operating Activities	P 300,000	

Cash flows from Investing Activities	→ INVESTING ACTIVITIES
Purchases of Property and Equipment	(P 150,000)
	30,000
	<hr/>
	(P 120,000)
	<hr/>
Cash flows from Financing Activities	→ FINANCING ACTIVITIES
Long term loan from a bank	p 300,000
Additional investment from owner	100,000
Withdrawals by owner	(80,00)
	<hr/>
Net cash generated by Financing Activities	P 320,000
	<hr/>
Net increase in cash and cash equivalents	P 500,000
	<hr/>
Cash, January 1, 2016	100,000
	<hr/>
Cash, December 31, 2016	<u>P 600,000</u>

Beginning Trade and Other Receivables –
Ending Trade and Other Receivables =
Increase/Decrease in Trade and Other
Receivables – Net

A positive result means beginning is greater than ending and there is a decrease in the balance of the receivables because of the cash collections while a negative result means ending is greater than beginning and there is an increase in the balance of the receivables because of more sales on account.

Where: Payments = Beginning Trade and Other Payables + Expenses – Ending Trade and Other Payables

Where: Expenses is already included in the Net Income

Thus: Payments = Beginning Trade and Other Payables – Ending Trade and Other Payables

Beginning Trade and Other Payables –
Ending Trade and Other Payables =
Increase/Decrease in Trade and Other
Payables

A positive result means beginning is greater than ending and there is a decrease in the balance of the payables because of the cash payments while a negative result means ending is greater than beginning and there is an increase in the balance of the payables because of more expenses on account.

Note: Teachers can focus on the direct method and just show what the indirect method looks like just in case the teacher feels that the indirect approach can be complicated at this level. If the teacher decides to proceed with the indirect approach, the explanations are as follows:

c. Sample of the Indirect Method

c.i. First part is operating activities

c.i.i. Non-cash expenses are added back while non-cash revenues are deducted. Gain/loss on sale of non-current assets are deducted/added back because the cash transaction is recorded under investing activities.

c.i.ii. Changes in current assets and current liabilities are either added or deducted depending on whether they increased or decreased during the year.

Increase in current assets – deducted to net income

Accounts Receivable – increases revenue which increases net income but is not a cash transaction

Prepaid Expense – decreases cash but does not change the net income

Decrease in current assets – added to net income

Accounts Receivable – increases cash but does not change the net income

Prepaid Expense – increases expenses which decreases net income but is not a cash transaction

Increase in current liabilities – added to net income

Accounts Payable – increases expenses which decreases net income but is not a cash transaction

Unearned Income – increases cash but does not change the net income

Decrease in current liabilities – deducted to net income

Accounts Payable – decreases cash but does not change the net income

Unearned Income – increases revenue which increases net income but is not a cash transaction

c.ii. Second part is investing activities

c.iii. Third part is financing activities

PRACTICE (30 MINS)

At least 5 Easy questions can focus on identifying the accounts that are under the different parts of the CFS.

At least 5 Medium questions can focus on the difference between Direct and Indirect Approach and computation of each part of the CFS (operating, investing, financing).

At least 5 Difficult questions can focus on computation of net change in cash for the year and preparation of the CFS.

Sample questions:

Easy:

1. Gain on sale of property and equipment is part of what activity in the CFS?

Answer: noncash transaction but part of operating activity if indirect

Teacher Tips:

Teacher should be able to shuffle the given and the missing item to promote critical thinking among the learners.

2. Changes in long term liabilities is part of what activity in the CFS?

Answer: financing

Average:

1. Net income is part of which Approach in preparing the CFS?

Answer: indirect

2. The company presented the following in order to aid the accountant in preparing the CFS:

- a. Net income: P200,000
- b. Depreciation expense: P 25,000
- c. Gain on sale of property and equipment: P100,000
- d. Decrease in trade and other receivables: P 70,000
- e. Purchase of property and equipment: P200,000
- f. Payment of loan from bank: P150,000

Compute for the cash generated/used in financing activities.

Answer: P150,000 net cash used in financing activities

Difficult:

1. Based on the given above, compute for the net change in cash for the year.

Answer:: (P155,000) net change in cash

2. If ending balance of cash account is P700,000, prepare the CFS for the year.

Suggested Answer:

**NAME OF COMPANY
CASH FLOW STATEMENT
FOR THE YEAR ENDED (YEAR-END)**

Cash flows from Operating Activities

Net income	P 200,000.00
------------	--------------

Add back:

Depreciation Expense	25,000.00
----------------------	-----------

Less:	
Gain on sale of property and equipment	(100,000)
	<hr/>
	P 125,000.00
Decrease in trade and other receivables-net	70,000.00
	<hr/>
Net cash flow generated from operating activities	P 195,000.00
	<hr/>
Cash flow from investing activity	
Purchase of property and equipment	(P 200,000.00)
	<hr/>
Net cash flow generated from investing activity	(P 200,000.00)
	<hr/>
Cash flow from financing activity	
Paid loan from a bank	(P 150,000.00)
	<hr/>
Net cash flow from used in financing activity	(P 150,000.00)
	<hr/>
Net change in cash	(P 155,000.00)
Cash, Beginning	855,000.00
	<hr/>
Cash, Ending	P 700,000.00
	<hr/>

ENRICHMENT (30 MINS)

- Teacher can discuss how a company can earn a lot, have numerous assets and yet have very small equities.
Company can still have a high level of cash balance with net loss due to non-cash expenses such as depreciation and accrual of expenses
- Other important matters:
 - Discuss that without the CFS, the company cannot know if it can pay its upcoming liabilities or continue operations due to some expenses having no credit terms, thus cash is needed before a

Teacher Tips:

Teacher should be able to shuffle the given and the missing item to promote critical thinking among the learners.

- transaction can occur.
- b. Discuss the importance of the approach:
 - b.i. Direct approach provides information regarding the actual cash transactions generated/used in operations
 - b.ii. Indirect approach provides information regarding non-cash transactions during the year and shows the difference between the net income/loss of the company and the cash generated/used in operations
 - c. Discuss that knowing the cash flow of the company or the cash flow of their personal lives can help the learners reduce unnecessary outflows and increase inflows to make sure that at the end of each period, the company or the learner can have a net increase in cash.

EVALUATION (30 MINS)

1 quiz: Quiz on the preparation of the CFS (either Direct or Indirect)

Sample questions:

Aside from the ones provided in the practice section, the teacher can make use of the following sample questions:

1. Identify which of the following transactions fall under operating, investing and financing activities:
 - a. Cash received from customers
 - b. Cash paid to suppliers
 - c. Cash paid to employees
 - d. Cash paid to purchase equipment (company does not sell equipment)
 - e. Cash received from sale of furniture (company's main line of business is not related to furniture)
 - f. Depreciation expense
 - g. Sale of goods on credit
 - h. Purchase of goods on credit
 - i. Cash received from getting a loan from a bank
 - j. Cash paid to owners

Suggested Answer: (Topic: Classifying cash transactions)

Teacher Tips:

Teacher can use the format of the practice questions and change values but it is better to prepare new questions using same concept. Some questions need not be straight forward.

- a. Cash received from customers - Operating
- b. Cash paid to suppliers - Operating
- c. Cash paid to employees - Operating
- d. Cash paid to purchase equipment (company does not sell equipment) - Investing
- e. Cash received from sale of furniture (company's main line of business is not related to furniture) - Investing
- f. Depreciation expense - Non-cash
- g. Sale of goods on credit - Non-cash
- h. Purchase of goods on credit - Non-cash
- i. Cash received from getting a loan from a bank = Financing
- j. Cash paid to owners - Financing

2. Juana's sari-sari store had the following transactions during the year:

- a. Purchase of goods. Paid cash. 100,000
- b. Sale of goods. Received cash. 150,000
- c. Paid utilities 30,000
- d. Paid rent 10,000
- e. Sold equipment for cash 100,000
- f. Owner withdraws investment 10,000

Compute for the net cash flow generated by/used in operating activities

Suggested Answer: P10,000 generated by operating activities (Topic: Operating Activities)

3. Using the given above, compute for the net cash flow generated by/used in investing activities.

Suggested Answer: P100,000 generated by investing activities (Topic: Investing Activities)

4. Using the given above, compute for the net cash flow generated by/used in financing activities.

Suggested Answer: P10,000 used in financing activities (Topic: Investing Activities)

5. Using the given above, prepare a Cash Flow Statement.

Suggested Answer: (Topic: Statement Preparation - Direct)

**JUANA'S SARI-SARI STORE
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash flows from Operating Activities	
Sale of goods	P 150,000.00
Purchase of goods	(100,000.00)
Paid utilities	(30,000.00)
Paid rent	(10,000.00)
Net Cash generated by Operating Activities	P 10,000.00
Cash flows from Investing Activities	
Sold equipment	P 100,000.00
Cash flow generated from investing activity	P 100,000.00
Cash flows from Financing Activities	
Withdrawals by owner	(P 10,000.00)
Cash flow from used in Financing Activities	(P 10,000.00)
Net change in cash	P 100,000.00
Cash, January 1, 2016	50,000.00
Cash, December 31, 2016	P 150,000.00

6. Prepare the Cash Flow Statement of Teresa's Delivery Services using the following:

Net Income	500,000	Increase in trade and other payables	150,000
Depreciation expense	70,000	Amount of proceeds from sale of property and equipment	50,000
Gain on sale of property and equipment	10,000	Paid loan from a bank	100,000
Increase in trade and other receivables – net	250,000	Cash, January 1, 2016	70,000

Suggested Answer: (Topic: Statement Preparation - Indirect)

**TERESA'S DELIVERY SERVICES
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash flows from Operating Activities	
Net Income	P 500,000.00
Add back: Depreciation Expense	70,000.00
Less: Gain on sale of property and quipment	(10,000.00)
	<hr/> P 560,000.00
(Increase)in Trade and Other Receivables - Net	(250,000.00)
Increase in Trade and Other Payables	150,000.00
Net cash generated by Operating Activities	<hr/> P 460,000.00
Cash flow from investing activity	
Proceeds from sale of property and equipment	P 50,000.00
Net cash flow generated from investing activity	<hr/> P 50,000.00
Cash flow from financing activity	
Paid loan from a bank	P 100,000.00
Net cash flow from used in financing activity	<hr/> P 100,000.00
Net change in cash	<hr/> P 610,000.00
Cash, January 1, 2016	70,000.00
Cash, December 31, 2016	<hr/> P 680,000.00

Analysis and Interpretation of Financial Statements 1

Content Standards

The learners demonstrate an understanding of the methods or tools of analysis of financial statements to include horizontal analysis and vertical analysis.

Performance Standards

1. Solve exercises and problems that require computation and interpretation using horizontal analysis and vertical analysis.
2. Using the downloaded sample financial statements, learner performs horizontal and vertical analysis.

Learning Competency

Perform vertical and horizontal analyses of financial statements of a single proprietorship. **(ABM_FABM12-Ig-h-13)**

Specific Learning Outcome

At the end of this lesson, the learners will submit a horizontal and vertical analysis evaluation of sample company.

LESSON OUTLINE

Introduction/ Review	Review the four reports that complete the set of financial statements	15
Motivation	Advise the learners that business owners and managers need more information that the balances of accounts reported statements. The techniques to generate this information from the financial statements will be learned from this session.	15
Instruction	Lecture on financial statement analysis, specifically the horizontal and vertical analysis techniques.	120
Practice	Instruct the learners to work individually on an exercise problem, i.e. sample problem C&F STore.	45
Enrichment	Assign a project that will require the learners to create a spreadsheet model for vertical and horizontal analysis.	
Evaluation	Give assignments and a short quiz. Additional exercises are provided below.	45
Materials	<ul style="list-style-type: none"> • Laptop and MS Excel • Calculator • Notebook and pens 	
Resources	2014 Annual Report of Jollibee Foods Incorporated	

INTRODUCTION (15 MINS)

- Require the learners to download the latest audited financial statements of a specific company, i.e. Annual Report of Jollibee Foods Corporation (JFC) as homework to be used during class discussion (http://www.jollibee.com.ph/wp-content/uploads/2014_Annual_Report.pdf). For the rest of the Introduction section, the 2014 Annual Report of Jollibee Foods Corporation will be used.
- Review the components of a complete the set of financial statements. This is a review of Contents 1 to 4 of the DepEd Curriculum Guide for Fundamentals of Accountancy, Business and Management 2. In a class recitation setting, you may ask learners to identify and describe each report. The following are the suggested answers to describe the financial statements:
 - The Statement of Financial Position (SFP) reports the balances of assets, liabilities and equity of the business as of a point in time.
 - The Statement of Comprehensive Income (SCI) shows the results of operations of the business by reporting the revenue and expenses for the specific accounting period.
 - The Statement of Cash Flows (SCF) / Cash Flows Statement (CFS) reports the actual cash inflows and outflows for the period that are classified into the three main business activities, namely, operating, investing and financing activities.
 - The Statement of Changes in Equity (SCE) reports all the changes, whether increases or decreases to the owner's interest on the company during the period
 - The Notes to Financial Statements discussed the nature of the company's operations, its accounting policies, basis for estimates, components of the accounts and significant transactions.
- Open the 2014 JFC Annual Report to the SFP at page 41. To illustrate the information that are readily available from the face of the SFP, you may ask a question similar to the following questions:
 - How much is JFC's total assets as of December 31, 2014? (**Answer ₱54,118,679,600**)
 - How much of JFC's liabilities are due to be paid on or before December 31, 2015? (**Answer ₱19,090,920,318**)
- Turn your attention to the SCI at page 42. You may again ask a question similar to the following questions:
 - Determine the amount of JFC's 2014 advertising expenses? (**Answer: ₱1,852,967,633**)
 - How much revenue did JFC earn in 2014 from royalties and franchise fee?

Teacher Tips:

If learners do not have internet facilities, you may choose one of the following options:

- (1) Download the JFC 2014 Annual Report. Give the print-out to the learners to photocopy.
- (2) Instead of requiring the learners to photocopy the Annual Report, distribute softcopy to learners via USB or project the pdf documents in class.
- (3) Ask the learners to look for the JFC 2014 Annual Report from the school library.
- (4) Finally, use whatever audited financial statements are available from the school library.

Teacher Tips:

These questions are not answerable based solely on looking on the face of the financial statements.

(Answer: ₱4,461,460,490)

- Ask the learners the following questions but instruct them that they are not allowed to compute. Write the questions on the board or flash them on a screen if you are using an overhead projector. They should look for the answers to the questions only on the face of the SFP and SCI:
 - **What is the asset growth in 2014?**
 - **Is the asset composition in 2013 the same as that in 2014?**
 - **Compare the financing mix (portion of assets financed by debt and equity, respectively) of JFC in 2014 and 2013 and determine if there is a significant change.**
 - **Is the revenue growth in 2014 better than that in 2013?**
 - **Is the net income growth in 2014 better than that in 2013?**
- The above questions are just examples of information that the owners or chief executive officer (CEO) of JFC needs to know in order to make business decisions. To prove this point, direct the students to go to page 6 to 9 of JFC's 2014 Annual Report for the CEO's Message to the Stockholders. Direct one of the learners to read the highlighted portion on page 8. The passage is reproduced below:
"Our brands' healthy sales growth translated to strong profit growth for the Company. JFC's net income attributable to equity holders of the Parent reached Php5.4 billion in 2014, 14.8% higher than the amount generated in 2013. Earnings per share grew by 14.0% to Php5.08. Our Philippine business achieved a double digit profit growth rate while all foreign regions: the United States, China, the Middle East and Southeast Asia contributed profit to the JFC Group in 2014."
- Conclude from the above two exercises that not all information needed by the CEO are readily available on the face of the FS. End the introduction section by informing the learners that the topics in this session will allow them to derive meaningful information from the financial statements than just the amounts reported on the face of the FS.

MOTIVATION (15 MINS)

Instruct the learners to imagine themselves as business owners. You may ask some of the learners to share with the class the businesses that they have in mind. After that, direct the class back to the questions posted on the board. Ask the learners if the answers to these questions are significant to them as owners of their imaginary businesses. Aside from the posted questions, ask the learners to identify more information that they want to know as business owners that are not readily available on the face of the FS. Lead them to consider growth (whether in assets, revenue or net income), asset components, financing mix and profitability (specifically the portion of revenue that will eventually go to the owner).

INSTRUCTION/DELIVERY (120 MINS)

Defining the following:

- **Financial statement (FS) analysis** is the process of evaluating risks, performance, financial health, and future prospects of a business by subjecting financial statement data to computational and analytical techniques with the objective of making economic decisions (White et.al 1998). There are three kinds of FS analysis techniques:
 - Horizontal analysis
 - Vertical analysis
 - Financial ratios*(Note: Inform the learners that this lesson will focus on horizontal and vertical analysis. The financial ratios will be discussed in the next lesson.)*
- **Horizontal analysis**, also called trend analysis, is a technique for evaluating a series of financial statement data over a period of time with the purpose of determining the increase or decrease that has taken place (Weygandt et.al 2013). This will reveal the behavior of the account over time. Is it increasing, decreasing or not moving? What is the magnitude of the change? Also, what is the relative change in the balances of the account over time?
 - Horizontal analysis uses financial statements of two or more periods.
 - All line items on the FS may be subjected to horizontal analysis.
 - Only the simple year-on-year (Y-o-Y) growth is covered in this lesson.
 - Changes can be expressed in monetary value (peso) and percentages computed by using the following formulas:
 - $\text{Peso change} = \text{Balance of Current Year} - \text{Balance of Prior Year}$
 - $\text{Percentage change} = (\text{Balance of Current Year} - \text{Balance of Prior Year}) / (\text{Balance of Prior Year})$
 - Example:

	<u>2014</u>	<u>2015</u>
Sales	P 250,000	P 175,000

$$\checkmark \text{Peso change} = \text{P}250,000 - \text{P}175,000 = \text{P}75,000$$

$$\checkmark \text{Percentage change} = (\text{P}250,000 - \text{P}175,000) / \text{P}175,000 = 42.86\%$$

Teacher Tips:

This may help your learners to remember and differentiate horizontal and vertical analysis.

- Project the comparative SFP of JFC. This is one where the 2014 SFP is presented side by side with the 2013 SFP. Refer to page 41 of JFC).
- Horizontal analysis is performed when one compares the 2014 Total Assets to that of 2013. So the directional movement of the analysis is horizontal or between two columns.
- Vertical analysis is performed when one determines the percentage of cash in relation to the company's total assets. Notice that the direction of the analysis is vertical. Cash and total assets are on the same column. Hence, the direction of the analysis is vertical.
- While only the simple year-on-year (Y-o-Y) growth is covered in this lesson, the compounded annual growth rate (CAGR) may also be used. The teacher may teach CAGR if he or she believes the learners can handle this more advanced topic. The CAGR formula is as follows:

$$\begin{aligned} & (\text{Balance, Earliest Year}) \times \\ & (1 + g)^{\text{Number of years covered}} \\ & = \text{Balance, Last Year} \end{aligned}$$

$$\left(\frac{\text{Balance, Last Year}}{\text{Balance, Earliest Year}} \right)^{\text{Number of years covered}} - 1 = g$$

where g is the CAGR.

- CAGR may be useful if the learners are already familiar with the concept of compounding interest rates. This lesson may be linked with interest rates compounding lesson in Business Math.

✓ This is evaluated as follows: *Sales increased by P75,000. This represents growth of 42.86% from 2013 levels.*

• **Vertical analysis**, also called common-size analysis, is a technique that expresses each financial statement item as a percentage of a base amount (Weygandt et.al. 2013).

- For the SFP, the base amount is Total Assets.

- Balance of Account / Total Assets.
- From the common-size SFP, the analyst can infer the composition of assets and the company's financing mix.
- Example:

		% of assets
Cash	P 200,000	$200,000/1,400,000 = 14.3\%$
Accounts Receivable	400,000	$400,000/1,400,000 = 28.6\%$
Inventory	250,000	$250,000/1,400,000 = 17.9\%$
Equipment	550,000	$550,000/1,400,000 = 39.3\%$
Total Assets	P 1,400,000	Sum of the components is 100%
Accounts Payable	P 300,000	$300,000/1,400,000 = 21.4\%$
Notes Payable	400,000	$400,000/1,400,000 = 28.6\%$
Owner, Capital	700,000	$700,000/1,400,000 = 50.0\%$
Total Liabilities and equity	P 1,400,000	Sum of the components is 100%

✓ The above may be evaluated as follows: *The largest component of asset is Equipment at 39.3%. Cash is the smallest component at 14%. On the other hand, 50% of assets are financed by debt and the other half is financed by equity.*

- For the SCI, the base amount is Net Sales.

- Balance of Account / Total Sales.
- This will reveal how "Net Sales" is used up by the various expenses.
- Net income as a percentage of sales is also known as the net profit margin.
- Example

		% of assets
Net Sales	P 900,000	
Cost of Goods Sold	400,000	$400,000/900,000 = 44.4\%$
Gross Profit	250,000	$500,000/900,000 = 55.5\%$
Operating Expenses	500,000	$200,000/900,000 = 22.2\%$
Net Income	300,000	$300,000/900,000 = 33.3\%$

✓ The above may be evaluated as follows:

- The cost of goods sold is 44% of sales. The company has a gross profit rate of 55.5%. Operating expenses is 22% of sales.
- The company earns income of P 0.33 for every peso of sales. Gross profit generated for every peso of sale is P 0.555

- The use of common-size financial statements allows the comparison of two companies of different sizes. This is because the SFP and SCl comparative information are standardized as a percentage of assets and sales, respectively.

PRACTICE (50 MINS)

Provide the learners with following practice exercise:

C&F Store
Statement of Financial Position
As of December 31

	2014	2013
Cash	110,000	87,400
Accounts Receivable	90,000	69,920
Inventory	129,000	218,500
Prepaid Rent	12,000	4,370

Teacher Tips:

The practice problem may be given to learners as homework. The time allotted (60 minutes) will be used in the classroom discussion of the solution to the homework.

Delivery Van	550,000	493,810
Total Assets	891,000	874,000

Accounts Payable	75,000	67,298
Loan Payable	400,000	393,300
Anistle Cruz, Capital	416,000	413,402
Total Liabilities and Equity	891,000	874,000

C&F Store
Statement of Comprehensive Income
For the period ending December 31

	2014	2015
Sales	810,000.00	686,000.00
Cost of Goods Sold	348,300.00	301,750.00
Gross Profit	461,700.00	384,250.00
Operating Expenses	234,900.00	205,800.00
Interest Expense	40,500.00	17,150.00
Net Income	186,300.00	161,300.00

Answer to Practice Exercise:

	2014		2013		Y-o-Y Growth
Cash	110,000	12%	87,400	10%	26%
Accounts Receivable	90,000	10%	69,920	8%	29%
Inventory	129,000	14%	218,500	25%	-41%
Prepaid Rent	12,000	1%	4,370	1%	175%
Delivery Van	550,000	62%	493,810	57%	11%
Total Assets	891,000	100%	874,000	100%	2%
Accounts Payable	75,000	8%	67,298	8%	11%
Loan Payable	400,000	45%	393,300	45%	2%
Anistle Cruz, Capital	416,000	47%	413,402	47%	1%
Total liabilities and equity	891,000	100%	874,000	100%	2%
Sales	810,000.00		686,000.00		18%
Cost of Goods Sold	348,300.00	43%	301,750.00	44%	15%
Gross Profit	461,700.00	57%	384,250.00	56%	20%
Operating Expenses	234,900.00	29%	205,800.00	30%	14%
Interest Expense	40,500.00	5%	17,150.00	3%	136%
Net Income	186,300.00	23%	161,300.00	24%	15%

ENRICHMENT (30 MINS)

Using any spreadsheet application, i.e. MS Excel, create a worksheet model for horizontal and vertical analysis.

- Use the downloaded audited financial statement (2014JFC audited SFP and SCI) from the

Teacher Tips:

This is an optional activity. To enhance the learners 21st century skills, the learners may use MS Excel to perform the horizontal and vertical analysis. The teacher may assign this as an individual or group project.

Introduction section to test the worksheet model.

- From the worksheet model above, require the learners to answer the questions posted earlier in the Introduction section:
- What is the asset growth in 2014?
- Is the asset composition in 2014 the same as that in 2013?
- Compare the financing mix (portion of assets financed by debt and equity, respectively) of JFC in 2014 and 2013 and determine if there is a significant change.
- Is the revenue growth in 2014 better than that in 2013?
- Is the net income growth in 2014 better than that in 2013?

EVALUATION (45 MINS)

- Choose from the additional exercises below to assign as homework exercises for the learners to practice at home as preparation for the quiz. Discuss the answers to the assignment in the next session.
- Give a short quiz to evaluate the learners' understanding of the lesson. You may choose from the additional exercises below or prepare your own questions.

ADDITIONAL EXERCISES

I. Multiple Choice Problems:

(For numbers 1 to 5) The financial statements of Merdana Trading Ltd. are given below:

	2014	2013
Cash and Cash Equivalents	12,250	10,470
Receivables	9,065	8,055
Inventory	6,620	5,300
Prepaid Expenses	8,545	10,600
Total Current Assets	36,480	34,425
Other Assets	92,500	78,685

	2014	2013
Total Assets	128,980	113,110
Total current liabilities	36,150	42,335
Long-term Liabilities	23,990	18,960
Mercedes Aldana, Capital	68,840	51,815
Total Liabilities and Equity	128,980	113,110

	2014
Sales	104,705
Cost of Sales	32,275
Gross Profit	69,430
Selling Expenses	35,325
Administrative Expenses	12,815
Operating Income	21,290
Interest Expense	1,050
Net Income	20,240

1. Horizontal analysis of 2014 Merdana's balance sheet would report
 - a. Cash as 9.50% of total assets.
 - b. 17% increase in Prepaid Expenses.
 - c. 19% increase in Cash.
 - d. All of the above

(Answer: B, while C is also a form of vertical analysis, Statement C is false because Prepaid Expenses decreased from 2013 to 2014.)

2. Vertical analysis of 2014 Merdana's balance sheet would report
 - a. Cash as 9.50% of total assets.
 - b. 17% increase in Prepaid Expenses.
 - c. 19% increase in Cash.
 - d. All of the above

(Answer: A)

3. A common-size income statement for Merdana would report (amounts rounded)
 - a. Net income of 19%.
 - b. Sales of 100%.
 - c. Cost of sales at 34%.
 - d. All of the above

(Answer: D)

4. A common-size balance sheet for Merdana would report (amounts rounded)
- a. Current liabilities as 28% of total assets.
 - b. Owner's capital is 53% of total liabilities and equity
 - c. Receivables is 7% of total liabilities and equity
 - d. All of the above

(Answer: D)

5. Trend analysis will show which of the following?
- a. 15% increase in Current Liabilities.
 - b. 33% increase in Owner's Capital.
 - c. 19% increase in Long Term Liabilities
 - d. All of the above

(Answer: B)

6. If current assets are ₱270,000 and total assets are ₱810,000, what percentage of total assets are current assets?
- a. 3.5 percent
 - b. 30 percent
 - c. 25 percent
 - d. 33 percent

(Answer: D)

7. Comparing the amount of a balance sheet item in one year to the amount for the same item in a prior year is called
- a. common-size analysis.
 - b. vertical analysis.
 - c. horizontal analysis.
 - d. ratio analysis.

(Answer: C)

8. A firm has liabilities of ₱30,000 and owner's capital of ₱90,000. The percentage of total liabilities to total assets is
- a. 25 percent.
 - b. 20 percent.
 - c. 50 percent.

d. 75 percent.

(Answer: A)

9. A firm had owner's capital of ₱150,000 in 2013 and ₱187,500 in 2013. The increase in owner's capital from 2013 to 2014 is

- a. 12.5 percent.
- b. 20 percent.
- c. 25 percent.
- d. 125 percent.

(Answer: C)

10. If long-term liabilities are ₱300,000 and total assets are ₱2,100,000, what percentage of total assets are long-term liabilities?

- a. 7 percent
- b. 16.7 percent
- c. 12.5 percent
- d. 14.3 percent

(Answer: D)

II. Problems:

1. Data for Abakada Trading Company are given below:

	2014	2015
Revenue	1,939,500	1,674,675
Cost of Goods Sold	900,000	843,975
Gross Profit	1,039,500	830,700
Selling and General Expenses	445,500	409,725
Other Expenses	37,575	30,825
Net Income	556,425	390,150

Requirements:

- a. Prepare a common-size Statement of Comprehensive Income for 2014 and 2013 for Abakada Trading Company.

b. Prepare a horizontal analysis for Abakada Trading Company.

2. Data for Ilang-Ilang Trading Company are given below:

	2014	2015
Current Assets	192,375	265,500
Property, Plant, and Equipment	937,508	967,500
Other Assets	152,618	159,750
Total Assets	1,282,500	1,392,750
Liabilities		
Total Current Liabilities	220,590	225,450
Long term Debt	491,198	460,250
Owner's Capital	570,713	706,950
	1,282,500	1,392,750

Requirements:

- Prepare a common-size Statement of Financial Position for 2014 and 2013 for Ilang-Ilang Trading Company.
- Prepare a horizontal analysis for Ilang-Ilang Trading Company.

3. Provided below are the financial statements of FGHI Company Ltd. Your task is to compare the profit performance and financial position of FGHI Company Ltd. with the average of the industry. Prepare the common size financial statements and compare your results with the industry average.

		Industry Average
Revenue	972,500.00	100.0%
Cost of Goods Sold	653,520.00	65.8%
Gross Profit	318,980.00	34.2%
Operating Expenses	201,307.50	19.7%
Other Expenses	5,835.00	0.4%
Net Income	111,837.50	14.1%
Current Assets	406,800.00	70.9%
Fixed Assets, net	151,200.00	23.6%
Intangible Assets, Net	10,800.00	0.8%
Other Assets	31,200.00	4.7%
Total Assets	600,000.00	100.0%
Total Current Liabilities	278,400.00	48.1%
Long term Debt	134,400.00	16.6%
Owner's Capital	187,200.00	35.3%
	600,000.00	100.0%

SOLUTIONS

Merdana Trading Ltd.

	2014	2013	Horizontal Analysis	Vertical Analysis
Cash and Cash Equivalents	12,250	10,470	17%	9.5%
Receivables	9,065	8,055	13%	7.0%
Inventory	6,620	5,300	25%	5.1%
Prepaid Expenses	8,545	10,600	-19%	6.6%
Total Curent Assets	36,480	34,425	6%	28.3%
Other Assets	92,500	78,685	18%	71/7%
Total Assets	128,980	113,110	14%	100.0%
Total current liabilities	36,150	42,335	-15%	28.0%
Long-term Liabilities	23,990	18,960	27%	18.6%
Mercedes Aldana, Capital	68,840	51,815	33%	53.4%
Total Liabilities and Equity	128,980	113,110	14%	100.0%
Sales	104,705			
Cost of Sales	32,275		34%	
Gross Profit	69,430		66%	
Selling Expenses	35,325		34%	
Administrative Expenses	12,815		12%	
Operating Income	21,290		20%	
Interest Expense	1,050		1%	
Net Income	20,240		19%	

1. Abakada Trading Company

	2014	%	2013	%	Y-o-Y Growth
Revenue	1,939,500		1,674,675		16%
Cost of Goods Sold	900,000	46%	843,975	50%	7%
Gross Profit	1,039,500	54%	830,700	50%	25%
Selling and General Expenses	445,500	23%	409,725	24%	9%
Other Expenses	37,575	2%	30,825	2%	22%
Net Income	556,425	29%	390,150	23%	43%

2. Ilang-Ilang Trading Company

	2014	%	2013	%	Y-o-Y Growth
Current Assets	192,375	15%	265,500	19%	-28%
Property, Plant, and Equipment	937,508	73%	967,500	69%	-3%
Other Assets	152,618	12%	159,750	11%	-4%
Total Assets	1,282,500	100%	1,392,750	100%	-8%
Liabilities					
Total Current Liabilities	220,590	17%	225,450	16%	-2%
Long term Debt	491,198	38%	460,250	33%	7%
Owner's Capital	570,713	45%	706,950	51%	-19%
	1,282,500	100%	1,392,750	100%	-8%

2. FGHI Company Ltd.

			Industry Average	FGHI vs Industry Average
Revenue	972,500.00		100.0%	
Cost of Goods Sold	653,520.00	67.2%	65.8%	1.4%
Gross Profit	318,980.00	32.8%	34.2%	
Operating Expenses	201,307.50	20.7%	19.7%	1.0%
Other Expenses	5,835.00	0.6%	0.4%	0.2
Net Income	111,837.50	11.5%	14.1%	-2.6%
Current Assets	406,800.00	67.8%	70.9%	-3.1%
Fixed Assets, net	151,200.00	25.2%	23.6%	1.6%
Intangible Assets, Net	10,800.00	1.8%	0.8%	1.0%
Other Assets	31,200.00	5.2%	4.7%	0.5
Total Assets	600,000.00	100.0%	100.0%	
Total Current Liabilities	278,400.00	46.4%	48.1%	-1.7%
Long term Debt	134,400.00	22.4%	16.6%	5.8%
Owner's Capital	187,200.00	31.2%	35.3%	-4.1%
	600,000.00	100.0%	100.0%	

Analysis and Interpretation of Financial Statements 2

Content Standards

The learners demonstrate an understanding of the methods or tools of analysis of financial statements to include financial ratios to test the level of profitability, efficiency and financial health (liquidity and solvency) of the business.

Performance Standards

The learners shall be able to:

1. Solve exercises and problems that require computation and interpretation using various financial ratios.
2. Using the downloaded sample financial statements, learner computes various financial ratios and interprets the level of profitability, efficiency and financial health (liquidity and solvency) of the business.

Learning Competencies

1. Define the measurement levels, namely, profitability, efficiency and financial health (**liquidity and solvency**) (**ABM_FABM12-Ig-h-12**).
2. Compute and interpret financial ratios such as current ratio, working capital, gross profit ratio, net profit ratio, receivable turnover, inventory turnover, debt-to-equity ratio, and the like. (**ABM_FABM12-Ig-h-14**).

Specific Learning Outcome

At the end of this lesson, the learners will submit a financial statement ratio analysis evaluation of sample company.

LESSON OUTLINE

Introduction	Review the horizontal and vertical analysis techniques from the previous lesson.	10
Motivation	Ask the learners specific questions that are relevant to business owners that may be addressed by ratio analysis.	10
Instruction	Lecture on financial ratio analysis techniques. Examples are provided within the section.	120
Practice	Instruct the learners to work individually on an exercise problem, i.e. sample problem C&F Store.	60
Enrichment	Assign a project that will require the learners to create a spreadsheet model for financial ratio analysis.	60
Evaluation	Give assignments and a short quiz. Additional exercises are provided below.	60
Materials	<ul style="list-style-type: none"> • Laptop and MS Excel • Calculator • Notebook and pens 	
Resources	2014 Annual Report of Jollibee Foods Incorporated	

INTRODUCTION (10 MINS)

1. Require the learners to bring the audited financial statements that were used in the previous sessions. The 2014 Annual Report of Jollibee Foods Corporation (JFC) will be used in the succeeding example. (http://www.jollibee.com.ph/wp-content/uploads/2014_Annual_Report.pdf)
2. Review the previous sessions' lesson. Using the Annual Report, answer the following questions that were posted in the previous sessions:
 - What is the asset growth in 2014? **(Answer: 21.93%)**
 - Is the asset composition in 2013 the same as that in 2014? Based on the following computation, there is a slight difference in asset composition.

	2014	%	2013	%
Current Assets	24,021,391,454	44%	18,384,176,985	40%
Noncurrent Assets	30,097,288,146	56%	27,642,457,128	60%
Total	54,118,679,600	100%	46,026,634,113	100%

- Compare the financing mix (portion of assets financed by debt and equity, respectively) of JFC in 2013 and 2012. There is no significant change in the financing mix of JFC.

	2014	%	2013	%
Liabilities	26,040,658,079	48%	22,665,694,036	49%
Equity	28,078,021,521	52%	23,360,940,077	51%
Total	54,118,679,600	100%	46,026,634,113	100%

- Is the net income growth in 2012 better than that in 2013?(Answer: No. In 2013, the one year growth was 27.23% compared with only 16.22% in 2014)
3. Direct the learners to page 38 Selected Financial Data. Inform the learners that they will understand these measures from this lesson.

Teacher Tips:

If learners do not have internet facilities, you may choose one of the following options:

- (1) Download the JFC 2014 Annual Report. Give the print-out to the learners to photocopy.
- (2) Instead of requiring the learners to photocopy the Annual Report, distribute softcopy to learners via USB or project the pdf documents in class.
- (3) Ask the learners to look for the JFC 2014 Annual Report from the school library.
- (4) Finally, use whatever audited financial statements are available from the school library.

	2014	2013	2012
Current Ratio	0.94	1.18	1.26
Debt Ratio	0.49	0.5	0.49

- End the introduction section by informing the learners that the topics in this session will allow them to derive meaningful information from the relationship of accounts in the financial statements.

MOTIVATION (10 MINS)

- Recall the businesses that the learners have thought off in the previous session (Financial Analysis 1). Call some of the learners to share the businesses they have imagined. Ask them if the following matters are important in their imagined businesses:
 - How fast can they sell their inventory?
 - How many days does it take to collect receivables from customers?
 - How much revenue is generated for each peso of asset invested in the business?
- Inform your learners that the answers to these questions may be derived from the financial statements. In this section, they will learn about ratio analysis.

INSTRUCTION/DELIVERY (120 MINS)

- Begin the lecture by recalling the definition of financial statements analysis:
 - Financial Statement (FS) Analysis** is the process of evaluating risks, performance, financial health, and future prospects of a business by subjecting financial statement data to computational and analytical techniques with the objective of making economic decisions(White et.al 1998).There are three kinds of FS analysis techniques:
 - Horizontal analysis
 - Vertical analysis
 - Financial ratios

(Note: Inform the learners that this lesson will focus on ratio analysis.)

Teacher Tips:

The focus of financial statement ratio analysis in ABM 2 is the computation of the ratios. The interpretation of the ratios will be covered in greater depth in Business Finance.

- **Ratio analysis** expresses the relationship among selected items of financial statement data. The relationship is expressed in terms of a percentage, a rate, or a simple proportion (Weygandt et.al. 2013). A financial ratio is composed of a numerator and a denominator. For example, a ratio that divides sales by assets will find the peso amount of sales generated by every peso of asset invested. This is an important ratio because it tells us the efficiency of invested asset to create revenue. This ratio is called asset turnover. There are many ratios used in business. These ratios are generally grouped into three categories: (a) profitability, (b) efficiency, and (c) financial health.
2. Profitability ratios measure the ability of the company to generate income from the use of its assets and invested capital as well as control its cost. The following are the commonly used profitability ratios:
- Gross profit ratio reports the peso value of the gross profit earned for every peso of sales. We can infer the average pricing policy from the gross profit margin.
 - Operating income ratio expresses operating income as a percentage of sales. It measures the percentage of profit earned from each peso of sales in the company's core business operations (Horngren et.al. 2013). A company with a high operating income ratio may imply a lean operation and have low operating expenses. Maximizing operating income depends on keeping operating costs as low as possible (Horngren et.al. 2013).
 - Net profit ratio relates the peso value of the net income earned to every peso of sales. This shows how much profit will go to the owner for every peso of sales made.
 - Return on asset (ROA) measures the peso value of income generated by employing the company's assets. It is viewed as an interest rate or a form of yield on asset investment. The numerator of ROA is net income. However, net income is profit for the shareholders. On the other hand, asset is allocated to both creditors and shareholders. Some analyst prefers to use earnings before interest and taxes instead of net income. There are also two acceptable denominators for ROA – ending balance of total assets or average of total assets. Average assets is computed as beginning balance + ending balance divided by 2.
 - Return on equity (ROE) measures the return (net income) generated by the owner's capital invested in the business. Similar to ROA, the denominator of ROE may also be total equity or average equity.

Sample Financial Statements to be used for the computations:

Cash	P 200,000	Accounts Payable	P 300,000	Sales	P 900,000.00
Accounts Receivable	400,000	Notes Payable	400,000	Cost of Goods Sold	400,000.00
Inventory	250,000	Owner, Capital	700,000	Gross Profit	500,000.00
Equipment	550,000	Total Liabilities and equity	P 1,400,000	Operating Expenses	200,000.00
Total Assets	P 1,400,000			Operating income	300,000.00
				Interest Expense	20,000.00
				Net Income	280,000.00

Name of Ratio	Formula	Sample Computation
Gross profit margin	$\frac{\text{Gross Profit}}{\text{Net Sales}}$	$\frac{500,000}{900,000} = 55.56\%$
Operating income margin	$\frac{\text{Operating Income}}{\text{Net Sales}}$	$\frac{300,000}{900,000} = 33.33\%$
Net profit margin	$\frac{\text{Net Income}}{\text{Net Sales}}$	$\frac{280,000}{900,000} = 31.11\%$
Return on assets	$\frac{\text{Net Income}}{\text{Average Assets}}$	$\frac{280,000}{1,400,000} = 20\%$
Return on equity	$\frac{\text{Net Income}}{\text{Average Equity}}$	$\frac{280,000}{700,000} = 40\%$

3. Operational efficiency ratio measures the ability of the company to utilize its assets. Operational efficiency is measured based on the company's ability to generate sales from the utilization of its assets, as a whole or individually. The turnover ratios are primarily used to measure operational efficiency.
- Asset turnover measures the peso value of sales generated for every peso of the company's assets. The higher the turnover rate, the more efficient the company is in using its assets.
 - Fixed asset turnover is indicator of the efficiency of fixed assets in generating sales.
 - Inventory turnover is measured based on cost of goods sold and not sales. As such both the numerator and denominator of this ratio are measured at cost. It is an indicator of how fast the company can sell inventory. An alternative to inventory turnover is "days in inventory". This measures the number of days from acquisition to sale.
 - Accounts receivables turnover the measures the number of times the company was able to collect on its average accounts receivable during the year. An alternative to accounts receivable turnover is "days in accounts receivable". This measures the company's collection period which is the number of days from sale to collection.

Name of Ratio	Formula	Sample Computation
Asset Turnover	$\frac{\text{Net Sales}}{\text{Average Asset}}$	$\frac{900,000}{1,400,00} = 0.64x$
Fixed Asset Turnover	$\frac{\text{Net Sales}}{\text{Average fixed Asset}}$	$\frac{900,000}{550,000} = 1.64x$
Inventory Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	$\frac{400,000}{250,000} = 1.60x$
Days in Inventory	$\frac{365}{\text{Inventory Turnover}}$	$\frac{365}{3.60} = 101.39$
Accounts Receivable Turnover	$\frac{\text{Net Sales}}{\text{Average Accounts Receivable}}$	$\frac{900,000}{400,000} = 2.25x$
Days in Accounts Receivable	$\frac{365}{\text{Accounts Receivable Turnover}}$	$\frac{365}{2.25} = 162.22$

Teacher Tips:

Observe that turnover ratios are expressed as "number of times". For example, asset turnover in the example is 0.64x which reads as "zero point sixty-four times". This means that sales generated was 0.64 times of average assets.

4. Financial Health Ratios look into the company's solvency and liquidity ratios. Solvency refers to the company's capacity to pay their long term liabilities. On the other hand, liquidity ratio intends to measure the company's ability to pay debts that are coming due (short term debt).
 - Debt ratio indicates the percentage of the company's assets that are financed by debt. A high debt to asset ratio implies a high level of debt.
 - Equity ratio indicates the percentage of the company's assets that are financed by capital. A high equity to asset ratio implies a high level of capital.
 - Debt to equity ratio indicates the company's reliance to debt or liability as a source of financing relative to equity. A high ratio suggests a high level of debt that may result in high interest expense.
 - Interest coverage ratio measures the company's ability to cover the interest expense on its liability

with its operating income. Creditors prefer a high coverage ratio to give them protection that interest due to them can be paid.

- Current ratio is used to evaluate the company's liquidity. It seeks to measure whether there are sufficient current assets to pay for current liabilities. Creditors normally prefer a current ratio of 2.
- Quick ratio is a stricter measure of liquidity. It does not consider all the current assets, only those that are easier to liquidate such as cash and accounts receivable that are referred to as quick assets.

Name of Ratio	Formula	Sample Computation
Solvency Measures		
Debt to Equity Ratio	$\frac{\text{Total Debt}}{\text{Equity}}$	$\frac{700,000}{700,000} = 1$
Debt Ratio	$\frac{\text{Total Debt}}{\text{Total Assets}}$	$\frac{700,000}{1,400,000} = 50\%$
Equity Ratio	$\frac{\text{Total Equity}}{\text{Total Assets}}$	$\frac{700,000}{1,400,000} = 50\%$
Interest Coverage Ratio	$\frac{\text{Operating Income}}{\text{Interest Expense}}$	$\frac{300,000}{20,000} = 15\%$
Liquidity		
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{850,000}{300,000} = 2.83$
Quick Ratio	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	$\frac{600,000}{300,000} = 2$

PRACTICE (60 MINS)

This practice exercise is a continuation of the C&F Store Exercise from Financial Statement Analysis 1.

C&F Store
Statement of Financial Position
As of December 31

	2014	2013
Cash	110,000	87,400
Accounts Receivable	90,000	69,920
Inventory	129,000	218,500
Prepaid Rent	12,000	4,370
Delivery Van	550,000	493,810
Total Assets	891,000	874,000
<hr/>		
Accounts Payable	75,000	67,298
Loan Payable	400,000	393,300
Anistle Cruz, Capital	416,000	413,402
Total Liabilities and Equity	891,000	874,000

C&F Store
Statement of Comprehensive Income
For the period ending December 31

	2014	2015
Sales	810,000.00	686,000.00
Cost of Goods Sold	348,300.00	301,750.00
Gross Profit	461,700.00	384,250.00
Operating Expenses	234,900.00	205,800.00
Interest Expense	40,500.00	17,150.00
Net Income	186,300.00	161,300.00

Solution

Profitability ratio

Gross Profit Rate 57%

Operating income margin 28%

Net profit margin 23%

ROA (NI/Total Assets) 21%

ROA (NI/Average Assets) 21%

ROA (EBIT/Total Assets) 25%

ROA (EBIT/Average Assets) 26%

ROE (NI/Capital) 45%

ROE (NI/Average Capital) 45%

Operating Efficiency

Asset Turnover 0.92

Fixed Asset Turnover 1.55

Inventory Turnover 4.66

Days in Inventory 78.29

AR Turnover 10.13

Days in AR 36.03

Financial Health

Debt to equity 1.14

Debt ratio 0.53

Equity ratio 0.47

Interest Coverage 5.60

Current ratio 4.55

Quick ratio 2.67

(Formulas used to compute the ratios are given in the Instruction / Delivery section above)

ENRICHMENT (60 MINS)

Using any spreadsheet application, i.e. MS Excel, create a worksheet model for financial ratio analysis. Use the downloaded audited financial statement (2014 JFC audited SFP and SCI) from the Introduction section to test the worksheet model.

EVALUATION (60 MINS)

- Choose from the additional exercises below to assign as homework exercises for the learners to practice at home as preparation for the quiz. Discuss the answers to the assignment in the next session.
- Give a short quiz to evaluate the learners' understanding of the lesson. You may choose from the additional exercises below or prepare your own questions.

Teacher Tips:

This is a continuation of the optional activity from Financial Statement Analysis 1. To enhance the learners 21st century skills, the learners may use MS Excel to perform the financial ratio analysis. The teacher may assign this as an individual or group project.

ADDITIONAL EXERCISES

I. Multiple Choice Problems:

(For numbers 1 to 5) The financial statements of Merdana Trading Ltd. are given below:

	2014	2013
Cash and Cash Equivalents	12,250	10,470
Receivables	9,065	8,055
Inventory	6,620	5,300
Prepaid Expenses	8,545	10,600
Total Current Assets	36,480	34,425
Other Assets	92,500	78,685
Total Assets	128,980	113,110

Total current liabilities	36,150	42,335
Long-term Liabilities	23,990	18,960
Mercedes Aldana, Capital	68,840	51,815
Total Liabilities and Equity	128,980	113,110

Sales	104,705
Cost of Sales	32,275
Gross Profit	69,430
Selling Expenses	35,325
Administrative Expenses	12,815
Operating Income	21,290
Interest Expense	1,050
Net Income	20,240

1. Which statement best describes Merdana Trading Ltd.'s acid-test ratio?
 - a. Greater than 1
 - b. Equal to 1
 - c. Less than 1
 - d. None of the above

(Answer: C)

2. Merdana Trading Ltd.'s inventory turnover during 2014 was (amounts rounded)

- a. 6 times.
- b. 7 times
- c. 8 times.
- d. Not determinable from the data given.

(Answer: A)

3. During 2014, Merdana Trading Ltd.'s days' sales in receivables ratio was (amounts rounded)

- a. 34 days
- b. 30 days
- c. 32 days
- d. 28 days

(Answer: B)

4. Which measure expresses Merdana Trading Ltd.'s times-interest-earned ratio? (amounts rounded)

- a. 54.7%
- b. 20 times
- c. 34 times
- d. 32 times

(Answer: B)

5. Merdana Trading Ltd.'s rate of return on equity can be described as

- a. 33.55%
- b. 16.72%
- c. 35.29%
- d. None of the above

(Answer: A)

6. Merdana Trading Ltd.'s rate of return on asset can be described as

- a. 33.55%
- b. 16.72%
- c. 35.29%
- d. None of the above

(Answer: B)

7. Merdana Trading Ltd.'s gross profit rate can be described as

- a. 34%
- b. 19%
- c. 20%
- d. 66%

(Answer: D)

II. Problems:

Problem 1: Very Berry Company

Statement of Comprehensive Income
For the Year-ended December 31

	2014	2013
Sales	10,040,000	8,760,000
Cost of Goods Sold	5,680,000	5,860,000
Gross Profit	4,360,000	2,800,000
Operating Expenses	1,160,000	1,680,000
Operating Income	3,200,000	1,220,000
Interest Expense	100,000	28,000
Net Income	3,100,000	1,192,000

Statement of Financial Position
For the Year-ended December 31

	2014	2013
Cash	400,000	180,000
Short-term investments	5,600,000	1,800,000
Accounts receivable	1,480,000	1,060,000
Inventory	1,380,000	1,640,000
Other Current Assets	8,860,000	4,680,000
Total Current Assets	10,860,000	5,040,000
Equipment	6,800,000	5,200,000
Total Assets	17,660,000	10,240,000
Accounts Payable	6,600,000	2,620,000
Notes Payable - long term	2,460,000	2,120,000
Owner, Capital	8,600,000	5,500,000
Total liabilities and equity	17,660,000	10,240,000

Requirements:

- Compute for the company's profitability and operating efficiency ratios for 2014.
- Compute for the financial health ratios of the company in 2014 and 2013.

Problem 2 (*Advance Computation*): Alice's Cupcakes

Fill in the missing data in Alice's Cupcake's Statement of Comprehensive Income using the following ratios:

- Inventory turnover is 3.50. Beginning inventory was ₱4,250 and ending inventory was ₱4,050.
- Net profit margin is 11%.

The incomplete Statement of Financial Position of Alice's Cupcakes is given below:

Net Sales	28,800.00
Cost of goods sold	a
Selling and admin expenses	7,320.00
Interest expense	b
Other Expenses	600.00
Income before taxes	5,300.00
Income tax expense	c
Net Income	d

Problem 3 (*Advance Computation*): Grandma's Cooking Company

Use the following ratio to complete Grandma's Cooking Company's balance sheet:

- Current ratio is 0.80.
- Acid-test ratio is 0.40.

Grandma's Cooking Company's incomplete balance sheet is given below:

Cash	375.00	Total current liabilities	9,500.00
Receivables	a	Long term note payable	e
Inventories	3,625.00	Other long term liabilities	4,900.00
Prepaid Expenses	b	Owner's capital	11,625.00
Total Current Assets	c	Total liabilities and equity	f
Plant assets, net	d		
Other assets	10,000.00		
Total assets	34,000.00		

SOLUTIONS

I. Multiple Choice Problems

1. Acid-test ratio

Cash and cash equivalents	12,250
Receivables	9,065
<hr/>	
	21,315 A
Total current liabilities	36,150 B
<hr/>	
Acid-test ratio	0.5896 A/B

2. Inventory turnover

Cost of sales	35,275 A
Average inventory	5,960 B
<hr/>	
Inventory turnover	5.919 A/B

3. Days sales in receivable

Average receivable	8,560 A
Daily sales*	286.86 B
<hr/>	
Daily sales in receivable	29.84 A/B

* Daily sales (sales/365)

5. Rate of return on equity

Net income	20,240 A
Average capital	60,328 B
<hr/>	
Rate of return on equity	33.55% A/B

6. Rate of return on asset

Net income	20,240 A
Average asset	121,045 B
<hr/>	
Rate of return on equity	16.72% A/B

7. Gross profit rate

Gross profit	69,430 A
Sales	104,705 B
<hr/>	
Gross profit rate	66% A/B

4. Times interest earned ratio

Operating income	21,290 A
Interest expense	1,050 B
Times interest earned ratio	20.27619 A/B

II. Problems

Problem 1: Very Berry Company

Profitability ratio

Gross Profit Ratio 43.43%

Operating income margin 31.87%

Net profit margin 30.88%

Return on Assets

NI/Total Assets 17.55%

EBIT/Total Assets 18.12%

NI/Average Assets 22.22%

EBIT/Average Assets 22.94%

Return on Equity

NI/Total Equity 36.05%

NI/Average Equity 45.39%

Operating Efficiency Ratios

Asset Turnover 0.72

Fixed Asset Turnover 1.67

Inventory Turnover 3.76

Days in Inventory 97.03

AR Turnover 7.91

Days in AR 46.17

Financial Health Ratios 2014

Liquidity

Debt to equity 1.053488372 0.861818182

Debt ratio 0.513023783 0.462890625

Equity ratio 0.486976217 0.537109375

Interest Coverage 32 43.57142857

Solvency

Current ratio 1.645454545 1.923664122

Quick ratio 1.13333333 1.160305344

Problem 2: Alice's Cupcakes

Net Sales	28,800.00	28,800.00	
Cost of goods sold	a	14,525.00	$3.50 \times (4,250 + 4,050)/2$ [Inventory turnover x Average Inventory]
Selling and admin expenses	7,320.00	7,320.00	
Interest expense	b	1,055.00	Net Sales - CGS - Selling and Admin - Other Expenses - IBT
Other Expenses	600.00	600.00	
Income before taxes	5,300.00	5,300.00	
Income tax expense	c	2,132.00	$5,300 - 3,168$ [Income before taxes - Net income]
Net Income	d	3,168.00	$28,800 \times 11\%$ [Net Sales x Net Profit Margin]

Problem 3: Grandma's Cooking Company

Cash	375.00		
Receivables	a	3,425.00	$(9,500 \times 0.40) - 375$ [(Acid test ratio X Total Current Liabilities) - Cash]
Inventories		3,625.00	
Prepaid Expenses	b	175.00	
Total Current Assets	c	7,600.00	$9,500 \times 0.80$ [Current Ratio x Total Current Liabilities]
Plant assets, net	d	16,400.00	
Other assets		10,000.00	
Total assets		34,000.00	

Total current liabilities	9,500.00		
Long term note payable	e	7,975.00	Total liabilities and equity - Capital - Other LT Liabs - CL
Other long term liabilities	4,900.00		
Owner's capital	11,625.00		
Total liabilities and equity	f	34,000	Total Assets

Accounting Books - Journal and Ledger

Content Standards

The learners demonstrate an understanding of debit and credit, journal entries to record basic business transaction and using t-accounts, and posting to general ledger.

Performance Standards

The learners shall be able to prepare journal entries for basic business transactions; solve exercises and problems that require using the t-account.

Learning Competencies

The learners shall be able to

1. Differentiate the journal from the general ledger **(ABM_FABM12-IIa-b-1)**
2. Determine the normal balance of an account **(ABM_FABM12-IIa-b-2)**
3. Prepare journal entries to record basic business transaction **(ABM_FABM12-IIa-b-3)**
4. Determine balances of accounts using the t-account. **(ABM_FABM12-IIa-b-4)**

Specific Learning Outcomes

At the end of this lesson, the learners will be able to:

1. Learn the use of journal and general ledger.
2. Prepare journal entries to record business transactions
3. Post the transaction in the general ledger
4. Determine the normal balances of the accounts using the t-account

LESSON OUTLINE

Introduction/ Review	Introduce the learning objectives. Review on journals and ledgers.	5
Motivation	Engage the learner on a conversation about their diaries and relate to the subject matter.	15
Instruction/ Delivery	Discussion proper	210
Practice	Solve short problems involving journal entries, posting to T-account and preparation of trial balance	90
Evaluation	Short Quiz	40
Materials	<ul style="list-style-type: none"> • 2-column worksheet • 3-column worksheet • bond papers 	
Resources	(1) Valencia, et. al. Basic Accounting 3rd edition 2009-2010, Valencia Educational Supply, 2009. (2) Weygandt, J. et. al. Accounting Principles 2010 edition. John Wiley and Sons.	

INTRODUCTION (5 MINS)

1. Introduce the following learning objectives:
 - a. I will be able to differentiate the journal from the general ledger.
 - b. I will be able to determine the normal balance of an account.
 - c. I will be able to prepare journal entries to record basic business transaction
 - d. I will be able to determine balances of accounts using the t-account.
2. Review the discussion on the journal and general ledger.

Ask the learners what is a journal and why it is called the book of original entry.

The journal is a chronological record (day-by-day) of business transactions. It is called the book of original because it is the accounting record in which financial transactions are first recorded.

Ask the learners what is a general ledger and why it is called as the book of final entry.

The ledger refers to the accounting book in which the accounts and their related amounts as recorded in the journal are posted to periodically. The ledger is also called the “book of final entry” because all the balances in the ledger are used in the preparation of financial statements. This is also referred to as the T-Account because the basic form of a ledger is like the letter “T”.

Teacher Tips:

Recall the discussion in ABM 1 Chapter 9 (Books of Accounts)

MOTIVATION (15 MINS)

Ask the learners if they maintain a diary. Engage the learners into a conversation by asking them the nature of the content of their diaries (e.g. daily routine, schedule, task list, stories, expenses). Connect the diaries to the topic of this chapter that is the journals and ledgers.

Teacher Tips:

The teacher may also ask the learners about the definition of accounting and ask them the importance of recording as stated in the definition.

Journals and ledgers can be compared to a personal diary because they are used to record the day-to day transactions of the business.

INSTRUCTION/DELIVERY (120 MINS)

1. The General Journal and Special Journal

Many businesses maintain several types of journals. The nature of the business operations and the volume of transactions determine the type and number of journals needed. The simplest type of journal is called the general journal. The process of recording a transaction is called journalizing the transactions. This type of journal is unique among journals because it may be used to record any type of business transactions. Recording all transactions in the general journal is not cost effective and time consuming. To speed up and simplify the recording process, most businesses make use of special journals. Each special journal is designed to record a particular type of transaction efficiently and quickly. Examples of special journals and their use are the following:

- a. Cash Receipts Journal – is used to record all cash that had been received.
- b. Cash Disbursements Journal – is used to record all transactions involving cash payments.
- c. Sales Journal (Sales on Account Journal) – is used to record all sales on credit (on account)

Purchase Journal (Purchase on Account Journal) – is used to record all purchases of inventory on credit (or on account)

2. The importance of using a journal

- The journal shows all information concerning a particular transaction.
- The journal provides a chronological record of all the financial events in the business over time. If we want to know about a certain transactions of years or months back, we can trace the said transactions as long as we have the date of the said transaction. The entries in the journal are arranged by date that makes it necessary to locate a particular event.

3. The Use of General Ledger

A ledger is a means of accumulating in one place all the information about changes in an asset, liability, equity, income, and expense accounts. A sample of the general ledger is shown below:

Teacher Tips:

The General and special journals were introduced and discussed in ABM1 Chapter 9 (Books of Accounts)

In order for the learners to understand the recording process, it is advised that the rules of debit and credit should be emphasized always in the discussion.

The rules of debit and credit are discussed in ABM1 Chapter 10 (Business Transactions and Their Analysis as Applied to the Accounting Cycle of a Service Business.

For the format and examples of these special journals, please refer to ABM1_Chapter 9 (Books of Accounts)

GENERAL LEDGER					
Account: Cash				Account No.: 1000	
Date	Item	Ref	Debit	Credit	Balance

A general ledger is often called a T-Account because of its resemblance to the letter T. A T-Account is a simplified form of general ledger. A sample of a T-account is shown below:

ACCOUNT TITLE (Ex. Cash)	
Left Side or Debit Side	Right Side or Credit Side

Recall the sample chart of accounts shown in ABM1 Chapter 8 (Types of Major Accounts). A T-Account for each of the account titles listed on the said chart is prepared to determine the balance at the end of the period of each account.

4. Determining the Balance of a T-Account

Shown below is the Chart of Accounts discussed in ABM1 Chapter 8 (Types of Major Accounts):

ACCOUNT CODE	ACCOUNT TITLE	CLASSIFIED BY TYPE OF MAJOR ACCOUNTS
Statement of Financial Position Accounts		
1000	Cash	ASSETS
1200	Accounts Receivable	
1201	Allowance for Bad Debts	

ACCOUNT CODE	ACCOUNT TITLE	CLASSIFIED BY TYPE OF MAJOR ACCOUNTS
Statement of Financial Position Accounts		
1300	Inventory	ASSETS
1400	Prepaid Expenses	
1500	Supplies	
1600	Office Equipment	
1601	AccumDeprn - Off Eqpt	
1650	Store Equipment	
1651	AccumDeprn - Store Eqpt	
1680	Transportation Equipment	
1681	AccumDeprn - Trans Eqpt	
1750	Building	
1751	AccumDeprn - Building	
1800	Land	
1900	Intangible Assets	
2000	Accounts Payable	LIABILITIES
2100	Notes Payable	
2200	Accrued Expenses	
2201	Salaries Payable	
2202	Utilities Payable	
2300	Income Taxes Payable	
3000	Owner's, Capital	EQUITY
3100	Owner's, Withdrawal	

ACCOUNT CODE	ACCOUNT TITLE	CLASSIFIED BY TYPE OF MAJOR ACCOUNTS
Income Statement Accounts		
4000	Service Revenue	INCOME
4100	Sales	
4101	Sales Returns and Allowances	
4102	Sales Discounts	
4150	Interest Income	EXPENSES
5000	Cost of Sales	
5100	Purchases	
5101	Purchase Returns & Allowances	
5102	Purchase Discounts	
5103	Freight In	
6100	Salaries Expense	
6150	Supplies Expense	
6200	Utilities Expense	
6220	Communication Expense	
6250	Travel Expense	
6300	Rental Expense	
6350	Fuel Expenses	
6400	Advertising Expense	
6410	Delivery Expense	
6450	Commission Expense	
6500	Depreciation Expense	
6600	Taxes and Licenses	
6700	Interest Expense	

In order to determine the ending balance of each account using the "T-account", the beginning balance is plotted in the appropriate debit or credit side, then total debits and credits are then determined. If the account has a beginning balance on the debit side, all the debits during the period is added to the beginning then all the credits are deducted. There is a debit balance of the account if the sum of the beginning balance and the total debits exceeds the total credits.

The normal balances of these accounts are listed below:

- a. Asset Accounts – Debit Balance; however the normal balance of a contra asset account is credit.
 In the above chart, the contra asset accounts are:
 Allowance for Bad Debts,
 Accumulated Depreciation (Accum. Deprn.) – Store Equipment
 Accum. Deprn. – Off Eqpt
 Accum. Deprn – Trans Eqpt
 Accum. Deprn – Building
- b. Liability Accounts – Credit Balance
- c. Equity Accounts – Owner's, Capital account has a normal balance on the credit side while the Owner's, Withdrawal account has a normal balance on the debit side.
- d. Income – Credit Balance
- e. Expense – Debit Balance

A summary of the normal balance of the account is shown below:

	Increase (Normal Balance)	Decrease
Statement of Financial Position Accounts		
Asset	Debit	Credit
Liability	Credit	Debit
Owner's Capital	Credit	Debit
Owner's Withdrawal	Debit	Credit
Income	Credit	Debit
Expense	Debit	Credit

When an account that normally has a credit balance actually has a debit balance, it may mean that an error have occurred or that an unusual situation may exist. For example the accounts receivable account normally have a debit balance, if at the end of the period the actual balance is on the credit side, it may mean that there was overpayment of the customer or an error in the recording processed has occurred.

To illustrate the determination of balances in the T-Account, let us take the following series of transaction for the month of February 2016:

On February 1, 2016, the following beginning balances were correctly determined from previous accounting period of Vicente Repair Shop:

Cash	25,000.00	Debit Balance
Accounts Receivable	100,000.00	Debit Balance
Office Equipment	50,000.00	Debit Balance
Accounts Payable	35,000.00	Credit Balance
Vicente, Capital	140,000.00	Credit Balance

Transactions during February 2016 are:

Feb 2	Rendered service to X Company for Php15,000 and received cash payment on same date
Feb 4	Paid Rental for the month amounting to Php3,500.00
Feb 5	Collected accounts receivable from Y Company amounting to Php 30,000. The amount was included in the beginning balance as of February 1, 2016 stated above.
Feb 10	Rendered service to Jose on account, P18,000 to be collected on March 2016.
Feb 15	Paid salaries of staff, Php 7,000
Feb 18	Paid accounts payable to Marine Company amounting to P5,000. The amount was included in the beginning balance as of February 1, 2016 stated above
Feb 20	Rendered service to Maria Company for P23,000, cash

The General Journal entries to record the above transactions are:

GENERAL JOURNAL				
Date	Account Title & Explanation	Ref	Debit	Credit
2/2	Cash		15,000	
	Service Revenue			15,000
2/4	Rental Expense		3,500	
	Cash			3,500
2/5	Cash		30,000	
	Accounts Receivable			30,000
2/10	Accounts Receivable		18,000	
	Service Revenue			18,000
2/15	Salaries Expense		7,000	
	Cash			7,000
2/18	Accounts Payable		5,000	
	Cash			5,000
2/20	Cash		23,000	
	Service Revenue			23,000

Recall the accounting cycle that after journalizing, the transactions are then posted to the General Ledger. However, instead of using a three column general ledger format, we will be using the "T- accounts". The T-accounts for the transactions journalized above are shown below:

CASH			
Beg. Bal	25,000		
2/2	15,000	2/4	3,500
2/5	30,000	2/15	7,000
2/20	23,000	2/18	5,000
Total	93,000	Total	15,500
Ending Bal	77,500		

ACCOUNTS RECEIVABLE			
Beg. Bal	100,000		
2/10	18,000	2/5	30,000
Total	118,000	Total	30,000
Ending Bal	88,000		

OFFICE EQUIPMENT

Beg. Bal	50,000		
Ending Bal	50,000		

ACCOUNTS PAYABLE

2/18	5,000	Beg. Bal	35,000
		Ending Bal.	30,000

VICENTE, CAPITAL

		Beg. Bal.	140,000
		Ending Bal	140,000

ACCOUNTS PAYABLE

	2/2	15,000
	2/10	18,000
	2/23	23,000
	Total	56,000

RENTAL EXPENSE

2/4	3,500		
Total	3,500		

VICENTE, CAPITAL

2/15	7,000		
Total	7,000		

After posting to the ledger or to the T-account, the trial balance for the above transactions is:

Account Title & Explanation	Debit	Credit
Cash	77,500	
Accounts Receivable	88,000	
Office Equipment	50,000	
Accounts Payable		30,000
Vicente, Capital		140,000

Account Title & Explanation	Debit	Credit
Service Revenue		56,000
Rental Expense	3,500	
Salaries Expense	7,000	
Total	226,000	226,000

Take note that the total debit and credit balances should always be equal.

The entries prepared above involves one debit and one credit account, however there are instances wherein more than one account are debited to credited. These are called compound journal entries.

Compound Journal Entry

An entry the involved two accounts only, one debit and one credit is called a **simple journal entry**. Some transactions, however, require more than two accounts in journalizing. An entry that requires three or more accounts is a **compound entry**.

To illustrate:

Ariel Garden Supply Store acquire a land for P800,000. Ariel paid P300,000 cash and issued a promissory note for the balance.

To record the above transaction using simple entry:

- (1) Land 300,000
 Cash 300,000
 To record purchased of land by paying cash

- (2) Land 500,000
 Note Payable 500,000
 To record purchased of land by issuing promissory note

To record the above transactions using a compound entry:

Land 800,000
 Cash 300,000

Notes Payable 500,000

To record purchased of land by paying cash and issuance of a promissory note

PRACTICE (90 MINS)

Practice Set No. 1 (Friendly Trucking)

On April 1, 2016, Nels Ferrer organized a business called Friendly Trucking. During April, the company entered into the following transactions:

Apr 1	Nels Ferrer deposited Php500,000 cash in a bank account in the name of the business.
Apr 1	Purchased for Php250,000 a transportation equipment to be use in the business. Nels paid 50% as down payment while the balance will be paid on May 15, 2016
Apr 1	Paid rental for the month of April, Php 5,000
Apr 5	Earned and collected trucking income from Ryan, Php8,000
Apr 8	Earned trucking income from Jesper, Php 30,000 on account. Jesper will pay on May 8, 2016
Apr 10	Paid salaries of drivers, Php10,000
Apr 15	Rented the vehicle to Joshua for Php35,000, Joshua paid Php20,000 on that date and the balance on April 20
Apr 18	Paid electric bills for the month, Php2,000
Apr 20	Collected from Joshua the balance of his April 15 account
Apr 25	Purchased office supplies, Php2,300
Apr 29	Earned and collected trucking income from Jay, Php 18,000

Instructions:

- Journalize the above transactions
- Post to ledger using the T-account format
- Prepare the unadjusted trial balance, as of April 30, 2016

SOLUTION: a. Journalize the transactions

Date	Account Title & Explanation	Ref	Debit	Credit
1-Apr	Cash		500,000	
	Ferrer, Capital			500,000
	Transportation Equipment		250,000	
	Cash			125,000
	Accounts Payable			125,000
	Rental Expense		5,000	
	Cash			5,000
5-Apr	Cash		8,000	
	Service Revenue			8,000
8-Apr	Accounts Receivable		30,000	
	Service Revenue			30,000
10-Apr	Salaries Expense		10,000	
	Cash			10,000
15-Apr	Cash		20,000	
	Accounts Receivable		15,000	
	Service Revenue			35,000
18-Apr	Utilities Expense		2,000	
	Cash			2,000
20-Apr	Cash		15,000	
	Accounts Receivable			15,000
25-Apr	Supplies Expense		2,300	
	Cash			2,300

Date	Account Title & Explanation	Ref	Debit	Credit
29-Apr	Cash		18,000	
	Service Revenue			18,000

b. Post to general ledger using T-account format

CASH		ACCOUNTS RECEIVABLE		TRANSPORTATION EQUIPMENT	
500,000	125,000	30,000	15,000	250,000	
8,000	5,000	15,000		250,000	
20,000	10,000	45,000	15,000		
15,000	2,000	30,000			
18,000	2,300				
561,000	144,300				
416,700					
ACCOUNTS PAYABLE		VICENTE, CAPITAL		SERVICE REVENUE	
	125,000		500,000		8,000
	125,000		500,000		30,000
					35,000
					18,000
					91,000
RENTAL EXPENSE		SALARIES EXPENSE		UTILITIES EXPENSE	
5,000		10,000		2,000	
5,000		10,000		2,000	

SUPPLIES EXPENSE

2,300	
2,300	

C. Prepare unadjusted trial balance

Account Title	Debit	Credit
Cash	416,700	
Accounts Receivable	30,000	
Transportation Eqpt	250,000	
Accounts Payable		125,000
Vicente, Capital		500,000
Service Revenue		91,000
Rental Expense	5,000	
Salaries Expense	10,000	
Utilities Expense	2,000	
Supplies Expense	2,300	
TOTAL	716,000	716,000

Practice Set No. 2 (Dayana Merchandising)

Dayana Company had the following transactions during December:

- a. Sold merchandise on credit for Php5,000, terms 3/10, n/30. The items sold had a cost of Php3,500.
- b. Purchased merchandise for cash, Php720.
- c. Purchased merchandise on credit for Php2,600, terms 1/20, n/30.
- d. Issued a credit memorandum for Php300 to a customer who returned merchandise purchased November 29. The returned items had a cost of Php210.
- e. Received payment for merchandise sold December 1.
- f. Received a credit memorandum for the return of faulty merchandise purchased on December 4 for Php600.
- g. Paid freight charges of Php200 for merchandise ordered last month. (FOB shipping point).
- h. Paid for the merchandise purchased December 4 less the portion that was returned.
- i. Sold merchandise on credit for Php7,000, terms 2/10, n/30. The items had a cost of Php4,900.
- j. Received payment for merchandise sold on December 24.

Required: Prepare the general journal entries to record these transactions using a perpetual inventory system. (Record all purchases initially at the gross invoice amount.)

Solution

Accounts Receivable	5,000	
Sales		5,000
Cost of Goods Sold	3,500	
Merchandise Inventory		3,500
Merchandise Inventory	720	
Cost of Goods Sold	3,500	
Merchandise Inventory		3,500
Merchandise Inventory	720	
Sales Returns and Allowances	300	
Accounts Receivable	111	300

Merchandise Inventory	210	
Cost of Goods Sold		210
Cash	4,850	
Sales Discounts	150	
Accounts Receivable		5,000
Accounts Payable	600	
Merchandise Inventory		600
Merchandise Inventory	200	
Cash		200
Accounts Payable	2,000	
Merchandise Inventory (Php2,000 x .01)		20
Cash		1,980
Accounts Receivable	7,000	
Sales		7,000
Cost of Goods Sold	4,900	
Merchandise Inventory		4,900
Cash	6,860	
Sales Discounts	140	
Accounts Receivable		7,000

EVALUATION (40 MINS)

Quiz No. 1. State whether the following T-accounts have normal balance or not.

1. CASH

345,000	10,800
8,000	1,000
20,000	
6,000	
379,000	11,800
367,200	

Answer: Normal

4. ACCUM. DEPRN - BLDG

	125,000
	125,000

Answer: Normal

7. RENTAL EXPENSES

5,000	6,000
	1,000

Answer: Not Normal

10. TAXES AND LICENSES

2,300	
2,300	

Answer: Normal

2. ACCOUNTS RECEIVABLE

10,000	15,000
3,000	
13,000	15,000
	2,000

Answer: Not Normal

5. CRUZ, CAPITAL

	500,000
	500,000

Answer: Normal

8. SALARIES EXPENSE

10,000	1,000
9,000	

Answer: Normal

3. LAND

250,000	
250,000	

Answer: Normal

6. SERVICE REVENUE

	34,500
	30,000
	1,000
	18,000
	83,500

Answer: Normal

9. INTEREST EXPENSE

2,000	5,000
	3,000

Answer: Not Normal

Quiz No. 2. Prepare the journal entry to record the following independent transactions:

1. Siopao Queen paid its P1,390 electric bill for the month.

Answer:

Utilities Expense	1,390
Cash	1,390

2. Friendly Store sold for cash, P4,5000 worth of merchandise. The cost of goods sold is P2,300. The company uses perpetual inventory system.

Answer:

Cash	4,500
Sales	4,500

Cost of Goods Sold	2,300
Merchandise Inventory	2,300

3. Waldo Merchandising purchased on account P23,000 goods for resale from Melody Inc. The company uses periodic inventory system.

Answer:

Purchases	23,0000
Accounts Payable	23,000

4. Butch Auto Repair purchased a building for his business at a cost of P500,000. Butch paid P300,000 and for the balance he issued a promissory note payable 60 days after.

Answer:

Building	500,000
Cash	300,000
Note Payable	200,000

5. Seth Laundry Company paid advertising contract for one month, P2,000.

Answer:

Advertising Expense	2,000
Cash	2,000

Teacher Tips:

Recall discussion on periodic and perpetual inventory system in ABM1 Chapter 12

Basic Documents and Transactions Related to Bank Deposits

Content Standards

The learners demonstrate an understanding of the types of bank accounts, basic transactions, and documents related to bank deposits and withdrawals.

Performance Standards

The learners shall be able to share samples of bank account forms and documents in class and discuss their uses and importance.

Learning Competencies

The learners shall be able to

1. Identify the types of bank accounts normally maintained by a business. **(ABM_FABM12-IIc-5)**
2. Differentiate a savings account from a current or checking account. **(ABM_FABM12-IIc-6)**
3. Prepare bank deposit and withdrawal slips. **(ABM_FABM12-IIc-7)**
4. Identify and prepare checks. **(ABM_FABM12-IIc-8)**
5. Identify and understand the contents of a bank statement. **(ABM_FABM12-IIc-9)**

Specific Learning Outcomes

At the end of this lesson, the learners will be able to:

1. Differentiate a savings account from a current or checking account
2. Prepare bank deposit and withdrawal slips
3. Prepare checks
4. Understand the contents of a bank statement

LESSON OUTLINE

Introduction/Review	Communicate the learning objectives	5
Motivation	Ask the learner if they have any bank account. Ask the learners to enumerate the banks in their communities.	20
Instruction/Delivery	Discuss the subject matter. Show example while discussing the topic.	120
Practice	Ask the learner to fill up the documents involved	10
Enrichment	Review discussions made. Share to the learners some important concept related to the subject matter	15
Evaluation	Short quiz	10
Materials	School supplies, Bank statement, Bank withdrawal slip, Bank deposit slip, Check, ATM Card	
Resources	(1) Valencia, et. al. Basic Accounting 3rd edition 2009-2010, Valencia Educational Supply, 2009. (2) Weygandt, J. et. al. Accounting Principles 2010 edition. John Wiley and Sons. (3) Valix, Conrado T. et. al. Financial Accounting Volume 1 2015 editions. GIC Enterprises & Co. Inc. 2015	

INTRODUCTION (5 MINS)

Introduce the following learning objectives:

- a. I will be able to identify the types of bank accounts normally maintained by a business
- b. I will be able to differentiate a savings account from a current or checking account
- c. I will be able to prepare bank deposit and withdrawal slips
- d. I will be able to identify and prepare checks
- e. I will be able to identify and understand the contents of a bank statement

MOTIVATION (20 MINS)

1. Ask the learners if they have any bank account. Ask any learner the purpose of his/her account or why he/she chose a certain bank.
Possible Answers:
 - Safety purposes
 - Forced to Save
 - Gift from parents
2. Ask the learners to enumerate the banks existing in their respective communities.

INSTRUCTION/DELIVERY (120 MINS)

1. Discuss the types of bank accounts normally maintained by a business and differentiate

Business usually maintain two types of account: (1) savings account , and (2) checking or current account

A. Savings Accounts

- These are intended to provide an incentive for the depositor to save money.
- The depositor can make deposits and withdrawals using the form provided by the bank.
- Banks usually pay an interest rate that is higher than a checking account or a current account.
- Some savings accounts have a passbook, in which transactions are logged in a small booklet that the depositor keep
- Some savings accounts charge a fee if the balance falls below a specified minimum

B. Checking or Current Accounts

- Money held under a checking account can be withdrawn through issuance of a check
- Banks usually allow numerous withdrawals and unlimited deposit under this type of account.
- The interest rate for checking account is usually lower as compared to a savings account.
- The account holder or depositor of a checking account is normally provided at the end of the month a bank statement showing all the deposits made, checks paid by the bank, and the balance of the account.
- The depositor is given easy access to the funds as compared to a savings account.

The teacher may also introduce time deposit account (or a certificate of deposit account) which is a type of a savings account that is held for a fixed-term and can be withdrawn only after the lapse of the agreed period and by giving notice to the bank. The account may be withdrawn also anytime however the bank usually charges penalties. This type of account yields high interest.

Another type of savings account that is popularly used nowadays is an ATM (Automated Teller Machine) account wherein withdrawals can be made through designated machines. This is a 24-hour teller machine and the funds can be withdrawn anytime. The advantage of this account is that even if the banks are closed, you can withdraw your funds.

Teacher Tips:

The teacher, before proceeding to the next topic may ask a learner to differentiate savings account from current account.

In order to open a particular account, the bank will require individuals certain documents such as valid identification card and will ask you to fill-up the forms prepared by the bank. Upon approval of the application to open an account, the bank will give the depositor his account number

2. Preparation of bank deposit and withdrawal slips

A withdrawal slip and deposit slip are written orders to the bank. These slips are used to take out money or to put in money to the depositor's account.

Withdrawal Slip

Without a withdrawal slip, the bank will not allow you to get money from your account. The required information in the withdrawal slip are:

- Account Name - the name of the depositor

- Account Number – the unique identifier given by the bank for every account maintained
- Date of the withdrawal
- Type of account - savings or current
- Currency
- Amount to be withdrawn - the amount that the depositor wishes to withdraw from his account. The amounts in words and in figures are indicated.
- Signature of the Depositor – this is the most important part in the withdrawal slip. The signature is a proof that the depositor is authorizing the bank to get money from his account. Usually, the bank compares the signature in the withdrawal slip against the signature in the bank records submitted during the opening of the account.

There are instances that the depositor cannot attend personally to withdraw the funds, he may authorize a representative by indicating the name of the representative in the space provided and the representative must sign. There is a need for the representative to bring a valid identification card upon withdrawal otherwise the bank will not approval the withdrawal.

Sample of a Bank Withdrawal Slip

Withdrawal Slip		
ACCT. TYPE	<input type="checkbox"/> SAVINGS	<input type="checkbox"/> CURRENT
CURRENCY	<input type="checkbox"/> PESO	<input type="checkbox"/> US DOLLAR <input type="checkbox"/> OTHERS _____
ACCT. NUMBER	<div style="border: 1px solid black; width: 100px; height: 20px; display: flex; justify-content: space-around;"> <div style="width: 20px; height: 10px; background-color: black;"></div> <div style="width: 20px; height: 10px; background-color: black;"></div> <div style="width: 20px; height: 10px; background-color: black;"></div> <div style="width: 20px; height: 10px; background-color: black;"></div> <div style="width: 20px; height: 10px; background-color: black;"></div> <div style="width: 20px; height: 10px; background-color: black;"></div> <div style="width: 20px; height: 10px; background-color: black;"></div> <div style="width: 20px; height: 10px; background-color: black;"></div> </div>	
ACCT. NAME _____		
TELLER'S VALIDATION		
Received from this Bank the sum of _____		
		AMOUNT
which amount is withdrawn from the above stated account. For joint accounts, declare under the penalties of perjury that my/our co-depositor(s) is/are still live		
SIGNATURE OF DEPOSITOR(S)		DATE
1. _____		
2. _____		
WITHDRAWAL THROUGH REPRESENTATIVE		
(We hereby authorize the person whose signature appears below, duly verify me/us to make the withdrawal for me/us.		
NAME IN PRINT		
SIGNATURE OF REPRESENTATIVE		
SIGNATURE OF DEPOSITOR(S)		DATE
1. _____		
2. _____		
PAYMENT RECEIVED BY (This must be signed in the presence of the Teller)		
For passbook accounts, this Withdrawal Slip must be signed and presented with corresponding passbook.		
REMARKS	VERIFIED BY	APPROVED BY

Form No. 2-01-18

Teacher Tips:

The teacher may prepare a large copy of a bank withdrawal slip and illustrate on the board how it is prepared.

Deposit Slip

The bank provides deposit slip that the depositor will fill up every time the depositor will put in money to his account. The usually required information in a deposit slip are:

- Account Name – this is the complete name of the depositor that is reflected in the records of the bank. If it has a pass book, the account name is indicated on first page inside the passbook.
- Account Number – this is a unique identifier of the account maintained by the depositor.
- Date of Deposit
- Type of Account
- Currency
- Amount in words and in figures – the amount that the depositor wishes to put into his account. The amount to be deposited maybe in form of cash or check. If it is a cash deposit, the breakdown of the cash is usually listed in the deposit slip if it is a check deposit, the details of the checks are indicated in the deposit slip, for example: Issuing Bank, Address of the Issuing Bank, date of the check and the amount.

Sample of a Bank Deposit Slip

The form is titled "DEPOSIT / PAYMENT / BILLS PURCHASE FORM" and "DEPOSIT PAYMENT SLIP". It includes fields for "DATE", "CURRENCY" (with options for PESO and US DOLLAR), "ACCOUNT NUMBER", "ACCOUNT NAME / MERCHANT NAME", and "POLICY / PLAN / REFERENCE NO.". There are checkboxes for "DEPOSIT", "PAYMENT", "BILLS PURCHASE", "SAVINGS", and "CURRENT". A section for "TYPE OF DEPOSIT / PAYMENT" includes a table for "CASH" and "CHECKS" with columns for "AMOUNT" and "CURRENCY". A "TOTAL DEPOSIT/PAYMENT" field is also present. The form includes a "SIGNATURE OVER PRINTED NAME" line and a "DEPOSITOR'S DECLARATION" section at the bottom.

3. Identify and prepare check (cheque)

A check is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued. The person writing the cheque, the drawer, has a transaction banking account where his money is held. The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering his bank, known as the drawee, to pay that person or company the amount of money stated. Checks are a type of bill of exchange and were developed as a way to make payments without the need to carry large amounts of money. The check number is usually indicated in the upper right portion of the check.

for deposit only

Check No. 448

Maker LAIRD COMPANY
77 West Central Avenue,
Midland, Michigan 48654

Payee Pay to the order of Watkins Wholesale Supply \$ 1525.00

Payer Fifteen hundred twenty-five and 00/100 Dollars

NB National Bank & Trust
Midland, Michigan 48654

W. F. Faine

Remittance Advice

Detach this portion before cashing.

Date	Description	Gross Amount	Discount	Net Amount
4-10-12	Invoice No. 27062	1525.00		1525.00

W. A. Laird Company, Midland, MI

The following are the parties involved in a transaction that uses check as medium of exchange:

- Drawer, the person or entity who makes the check
- Payee, the recipient of the money
- Drawee, the bank or other financial institution where the cheque can be presented for payment.

4. Identify and understand the contents of a bank statement

At the end of every month, the bank furnishes a statement to the depositor showing the movement of the account. It contain all the withdrawals, deposits and balance of your account after every transaction. It may also indicate bank charges that were deducted by the bank automatically. Also, interest earned by the account is likewise reflected.

Sample of a Bank Statement

Juana Dela Cruz
Iznart St., Iloilo City

Current Account No: 2030071245
Statement Period: 11/01/14 – 11/30/14

Date	CHECK NO.	TRANS CODE	DEBIT	CREDIT	BALANCE
11/1/14		Balance Forwarded			44,200.00
11/3/14	12345		4,200.00		40,000.00
11/5/14		Deposit		5,000	45,000.00
11/6/14		Interest		500	45,500.00
11/6/14		Wtax	50.00		45,450.00
11/7/14		Bank Service Charge	150.00		45,300.00
11/10/14	12348		5,200		40,100.00

The date column indicate the date the transaction was made. The check number indicates the details of the check paid by the bank. The transaction code is normally a bank code for the transactions. The Debit column represents all charges or deduction made by the bank to your account. The Credit column represents the deposits or additions to your account that was made by the bank. The Balance column is the running balance after considering the effect of the transaction to your account.

Samples of Debit transaction

- **Bank service charge** - monthly fee charged by the bank for its services (Ex. cost of printing checks writing funds to other locations and other fees)
- **NSF** - (Not Sufficient Fund) – Banks also use a debit memorandum when a deposited check from a customer “bounces” because of insufficient funds. Nowadays bank refer to this as DAIF (Drawn Against Insufficient Fund) or DAUD (Drawn Against Uncleared Deposits)

Samples of Credit transactions

- **Collection** of cash proceeds from notes receivables.
- **Interest income** earned by the deposit.

As part of control, the bank statement received from the bank is compared with the accounting records of the business. This process is called bank reconciliation. *Bank reconciliation* will be discussed in the succeeding chapters.

Together with the bank statements, the banks will include the copies of checks cleared or paid by the bank for that particular month.

PRACTICE (10 MINS)

Require the learners to photocopy blank withdrawal slips, deposit slips, and check. During the class, require the students to fill out the blank forms and submit.

Teacher Tips:

Keep the forms submitted by the learners for future use in the discussion of other bank transaction topics.

ENRICHMENT (15 MINS)

Ask the learner the learner why companies issue checks.

Possible answers:

- Payment of debts
- Gifts
- Payment of supplies
- Payment of electric bills

Review the learners of the parties involved in the issuance of a check.

Discuss the following:

1. Cross Check

It is marked to specify an instruction about the way it is to be redeemed. A common instruction is to specify that it must be deposited directly into an account of the payee. It is usually done by writing two parallel lines on the upper left portion of the check. A cross check cannot be encashed over the counter by the payee. It should be deposited to the payees account.

Show the learner an example of a cross check.

Teacher Tips:

The teacher may discuss the different types of bank as classified by the Bangko Sentral ng Pilipinas.

2. Stale Check

A **cheque** which a bank will not accept and exchange for money or payment because it was written more than a certain number of months ago. In the Philippines a check becomes stale if it exceeds 6 months from the date of the check.

Share the following as an additional information to the learners:

- What will happen if there are any erasures in the check?
The check will not be accepted by the bank. The erasures should be signed by the drawer.

EVALUATION (10 MINS)

1. What is a bank statement and discuss the importance of a bank statement to a depositor.

Suggested Answer: The bank statement shows the beginning balance, additions, deductions, and the balance at the end of the period. This statement is issued by the bank to all its depositors and is usually done on a monthly basis. The bank statement helps the depositor in documenting and monitoring the movements on his bank account. This will also serve as the basis in the preparation of bank reconciliation statement, wherein the records of the bank are compared with records of the depositor. Any discrepancies between the two records can be properly addressed and corrected.

2. What is a check and who are the parties involved in the issuance of a check? Discuss the role of each party.

A check is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued. The person writing the cheque, the *drawer*, has a transaction banking account where his money is held. The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering his bank, known as the *drawee*, to pay that person or company the amount of money stated. The following are the parties involved in a transaction that uses check as medium of exchange:

- **Drawer**, the person or entity who makes the check
- **Payee**, the recipient of the money
- **Drawee**, the bank or other financial institution where the cheque can be presented for payment

Teacher Tips:

The teacher may give this as a graded recitation

Basic Reconciliation Statement

Content Standards

The learners demonstrate an understanding of a bank reconciliation statement, its nature and structure, and reconciling items and methods of preparation.

Performance Standards

The learners shall be able to solve exercises and problems involving the identification of the proper treatment of reconciling items in the bank reconciliation statement.

Learning Competencies

The learners shall be able to

1. Describe the nature of a bank reconciliation statement. **(ABM_FABM12-IId-10)**
2. Identify common reconciling items and describe each of them. **(ABM_FABM12-IId-11)**
3. Analyze the effects of the identified reconciling items. **(ABM_FABM12-IId-12)**

Specific Learning Outcomes

At the end of this lesson, the learners will be able to:

1. Identify common reconciling items and their effects
2. Prepare a bank reconciliation statement

LESSON OUTLINE

Introduction/Review	Communicate learning objectives	10
Motivation	Review topics discussed in the basic documents and transactions related to bank deposits	10
Instruction/Delivery	Discuss the subject matter.	90
Practice	Preparation of a Bank Reconciliation statement	40
Evaluation	Quiz on the preparation of Bank Reconciliation statement	30
Materials	Calculator, Bond paper, Checks, Bank Statements, Bank Passbook, Bank Deposit Slip, Bank Withdrawal Slip	
Resources	(1) Valencia, et. al. Basic Accounting 3rd edition 2009-2010, Valencia Educational Supply, 2009. (2) Weygandt, J. et. al. Accounting Principles 2010 edition. John Wiley and Sons. (3) Valix, Conrado T. et. al. Financial Accounting Volume 1 2015 editions. GIC Enterprises & Co. Inc. 2015	

INTRODUCTION (10 MINS)

Introduce the following learning objectives:

- a. I will be able to describe the nature of a bank reconciliation statement.
- b. I will be able to identify common reconciling items and describe each of them.
- c. I will be able to analyze the effects of the identified reconciling items.

MOTIVATION (10 MINS)

1. Review the learners on the discussion made about the basic documents and transactions related to bank deposits
 - Ask the learners what is current account
 - Ask the learners who are the parties involved in the issuance of a check.
 - Ask the learners what is a bank statement.
 - Ask the learners what are the contents of a bank statement.
 - Ask the learner the purpose of a bank statement.
2. Ask the learners "Upon receipt of a bank statement, what will the company do?"

Possible Answers:

 - File the statement
 - Throw/Discard/Leave anywhere
 - Review
 - Check and compare with records

Introduce the topics for discussion and emphasize that upon receipt of the bank statement, the same should be reviewed. Compare it with your accounting records and file.

Teacher Tips:

Once the learners answer that the statement is thrown away, discarded or ignored, correct them immediately and tell them that this is not the proper way.

INSTRUCTION/DELIVERY (90 MINS)

1. Nature of Bank Reconciliation Statement

It is normal for a company's bank balance as per accounting records to differ from the balance as per bank statement. The difference between these figures is the reasons why companies prepare a bank reconciliation statement. **Bank reconciliation statement** is a report which compares the bank balance as per company's **accounting records** with the balance stated in the **bank statement**.

The two common causes of the discrepancy in figures are:

- **Time lags** that prevent one of the parties (company or the bank) from recording the transaction in the same period as the other party.
Example: A bank statement that ends January 30, 2015 and then the company were able to collect cash of P20,000 at 5:00 PM. Bank usually closes at 3:00 PM because of this, the cash collected will not be reflected in the bank as deposit but it is however recorded in accounting records of the company.
- **Errors** by either party in recording transactions
Example: A check was issued to Meralco by the company amounting to P1000. The company recorded this as P100. When the check was presented, the bank paid Meralco P1,000. In the records of the company it was P100 while in the records of the bank it's P1,000. There is in this case an error that will cause the difference between the company's records and the bank records.

The importance of Bank Reconciliations are as follows:

- Preparation of bank reconciliation helps in the identification of errors in the accounting records of the company or the bank.
- Cash is the most vulnerable asset of an entity. Bank reconciliations provide the necessary control mechanism to help protect the valuable resource through uncovering irregularities such as unauthorized bank withdrawals. However, in order for the control process to work effectively, it is necessary to segregate the duties of persons responsible for accounting and authorizing of bank transactions and those responsible for preparing and monitoring bank reconciliation statements.
- If the bank balance appearing in the accounting records can be confirmed to be correct by comparing it with the bank statement balance, it provides added comfort that the bank transactions have been recorded correctly in the company records.
- Monthly preparation of bank reconciliation assists in the regular monitoring of cash flows of a business.

There three methods of preparing bank reconciliation statement, namely:

- a. Adjusted Method wherein the balances per bank and per book are separately determined.
- b. Book to Bank Method wherein the book balance is adjusted to agree with the bank balance.
- c. Bank to Book Method wherein the bank balance is adjusted to agree with book balance.

For the learners, the adjusted method will be used. The two remaining methods will be discussed in higher accounting subjects in case they wish to pursue an accounting degree. In practice anyway, the adjusted method is the commonly used method.

2. Identify common reconciling items and describe each of them.

The most common format of a bank reconciliation statement is shown below:

JUAN COMPANY BANK RECONCILIATION STATEMENT APRIL 30, 20XX			
Unadjusted Book Balance	xxxxx	Unadusted Bank Balance	xxxx
		Deposit in Transit	xxxx
Bank Debit Memo		Outstanding Checks	xxxx
NSF Check	xxxxx		
Printing Charge	xxxxx		
Bank Credit Memo			
Collection	xxxxx		
Errors	xxxxx		
Adjusted Book Balance	<u>xxxxx</u>	Adjusted Bank Balance	<u>xxxxxx</u>

The key terms to be aware of when dealing with a bank reconciliation are:

- **Deposits in transit** are amounts already received and recorded by the company, but are not yet recorded by the *bank*.

For example, a retail store deposits its cash receipts of August 31 into the bank's night depository at 10:00 p.m. on August 31. The bank will process this deposit on the morning of September 1. As of August 31 (the bank statement date) this is a deposit in transit.

Because deposits in transit are already included in the company's Cash account, there is no need to adjust the company's records. However, deposits in transit are not yet on the bank statement. Therefore, they need to be listed on the bank reconciliation as ***an increase to the balance per bank*** in order to report the true amount of cash.

A deposit in transit is on the company's books, but it isn't on the bank statement.

- **Outstanding checks** are checks that have been written and recorded in the company's Cash account but have *not yet* cleared the bank account or presented to the bank by the payee.

Checks written during the last few days of the month plus a few older checks are likely to be among the outstanding checks.

Because all checks that have been written are immediately recorded in the company's Cash account, there is no need to adjust the company's records for the outstanding checks. However, the outstanding checks have not yet reached the bank and the bank statement. Therefore, outstanding checks are listed on the bank reconciliation as a *decrease in the balance per bank*.

Illustration of an Outstanding Check: On January 29, 2015, Juan issued a check to Maria amounting to P2,000. The check was then recorded by Juan in his books as a deduction to his cash. It so happens that the bank was closed on that day and Maria was able to visit the bank and have it encashed on February 1, 2015 only. In the bank statement received by Juan from his bank ending January 30, 2015, the P2,000 check was not deducted however it was already deducted in the books of Juan on January 29, 2015. The P2,000 check is called an outstanding check.

- **Bank errors** are mistakes made by the bank. Bank errors could include the bank recording an incorrect amount, entering an amount that does not belong on a company's bank statement, or omitting an amount from a company's bank statement.

The company should notify the bank of its errors. Depending on the error, the correction

Teacher Tips:

The bank usually issues a credit memo to inform the client of any additions made to the account of the client.

A debit memo is issued by the bank to inform the client that the account was deducted

could *increase or decrease the balance shown on the bank statement*.

Since the company did not make the error, the company's records are not changed.

- **Bank service charges** are fees deducted from the bank statement for the bank's processing of the checking account activity

Examples:

- accepting deposits,
- posting checks,
- mailing the bank statement,

Other types of bank service charges include the fee charged when a company **overdraws its checking account** and the bank fee for processing a **stop payment order** on a company's check.

The bank might deduct these charges or fees on the bank statement without notifying the company. When that occurs, the company usually learns of the amounts only after receiving its **bank statement**.

Because the bank service charges have already been deducted on the bank statement, there is no adjustment to the balance per bank. However, the service charges will have to be entered as an adjustment to the company's books. The company's Cash account will need to be decreased by the amount of the service charges.

- **NSF check** is a check that was not honored by the bank of the person or company writing the check because that account **did not have a sufficient balance**. As a result, the check is returned without being honored or paid.

NSF is the acronym for **not sufficient funds**. When the NSF check comes back to the bank in which it was deposited, the bank will decrease the checking account of the company that had deposited the check. The amount charged will be the amount of the check plus a bank fee.

Because the NSF check and the related bank fee have already been deducted on the bank statement, there is no need to adjust the balance per the bank. However, if the company has not yet decreased its Cash account balance for the returned check and the bank fee, the company must decrease the *balance per books* in order to reconcile.

- **Check printing charges** occur when a company arranges for its bank to handle the reordering of its checks. The cost of the printed checks will automatically be deducted from the company's checking account.

Because the check printing charges have already been deducted on the bank statement, there is no adjustment to the balance per bank. However, the check printing charges need to be an adjustment on the company's books. They will be a deduction to the company's Cash account.

- **Interest earned** will appear on the bank statement when a bank gives a company interest on its account balances. The amount is added to the checking account balance and is automatically on the bank statement. Hence there is no need to adjust the balance per the bank statement. However, the amount of interest earned will increase the balance in the company's Cash account on its books.
- **Notes Receivable** are assets of a company. When notes come due, the company might ask its bank to collect the notes receivable. For this service the bank will charge a fee. The bank will increase the company's checking account for the amount it collected (principal and interest) and will decrease the account by the collection fee it charges. Since these amounts are already on the bank statement, the company must be certain that the amounts appear on the company's books in its Cash account.
- **Errors** in the company's Cash account result from the company entering an incorrect amount, entering a transaction that does not belong in the account, or omitting a transaction that should be in the account. Since the company made these errors, the correction of the error will be either an increase or a decrease to the balance in the Cash account on the company's books.

3. The Bank Reconciliation Process

Step 1. Adjusting the Balance per Bank

The first step is to adjust the *balance on the bank statement* to the true, adjusted, or corrected balance. The items necessary for this step are listed in the following schedule:

Step 1.	Balance per Bank Statement on Aug. 31, 2014
	Adjustments:
	Add: Deposits in transit
	Deduct: Outstanding checks
	Add or Deduct: Bank errors
	Adjusted/Corrected Balance per Bank

Step 2. Adjusting the Balance per Books

The second step of the bank reconciliation is to adjust the balance in the company's Cash account so that it is the true, adjusted, or corrected balance. Examples of the items involved are shown in the following schedule:

Step 2.

Balance per Books on Aug. 31, 2014

Adjustments:

Deduct: Bank service charges

Deduct: NSF checks & fees

Deduct: Check printing charges

Add: Interest earned

Add: Notes Receivable collected by bank

Add or Deduct: Errors in company's Cash account

Adjusted/Corrected Balance per Books

Step 3. Comparing the Adjusted Balances

After adjusting the **balance per bank** (Step 1) and after adjusting the **balance per books** (Step 2), the two adjusted amounts **should be equal**. If they are not equal, you must repeat the process until the balances are identical. The balances should be the true, correct amount of cash as of the date of the bank reconciliation. The adjusted cash balance will appear as the Cash in Bank in the Statement of Financial Position (Balance Sheet).

PRACTICE (40 MINS)

Practice Set 1

For the month of May 2016, Tope Company issued the following checks as recorded in its Cash Disbursement Journal:

Check Date	Check No	Payee	Amount
5/2/2016	1256	Jane	2,000
5/10/2016	1257	May	300
5/15/2016	1528	Nicole	4,500
5/18/2016	1259	Kathy	8,700
5/30/2016	1260	Perry	1,200

As per the bank statement received by Tope, the following checks were presented and paid by the bank:

Check No	Payee	Amount
1256	Jane	2,000
1259	Kathy	8,700
1260	Perry	1,200

Teacher Tips:

Outstanding checks are checks issued to the payee but not presented or paid by the bank

Instruction: Identify checks outstanding as of end of May 2016

Answer: Check 1257 issued to May for P300 and Check 1528 issued to Nicole for P4,500

Practice Set No. 2

The cash receipts journal of Malaya Merchandising reflected the following collections for the month of April 2016:

Official Receipt Date	Official Receipt No.	Customer	Amount
5/2/2016	4171	Carl	4,000
5/8/2016	4172	Vince	2,000
5/9/2016	4173	Ryan	8,900
5/25/2016	4174	Fatima	7,800
5/26/2016	4175	Cherry	3,200

It is the policy of the company to deposit collection within the following day from the date of collection.

The bank statement for April 2016 revealed following deposits made:

Deposit Date	Amount
5/3/2016	4,000
5/9/2016	2,000
5/10/2016	8,900
5/26/2016	7,800
5/26/2016	3,200

Instruction: Compute for the deposit in transit or undeposited collection as of end of April 2016.

Answer: P4,780

Practice Set 3.

Identify whether the following independent transaction is a book or a bank reconciling. In addition, determine the amount of the error and state whether the amount will be added or deducted in the preparation of the bank reconciliation(use adjusted method):

1. Eagle Repairs received P1,500 from Jane. The bookkeeper recorded the amount as P500.

Answer: Book. P1,000 will be added to the books.

2. Nation Bank collected from the customer of Eagle the sum of P5,000 representing payment of the said customer to Eagle. No entry was made in the books of Eagle.

Answer: Book. P5,000 will be added to the books.

3. The bank teller deducted CK 123 for P3,500 from the account of Eagle. The said check was issued by Egles Company a different depositor of the bank.

Answer: Bank. P3,500 will be added to bank records. Hint: The teller had deducted the amount to the account of eagle which should not be, thus the amount is returned or added.

4. The bookkeeper of Eagle recorded Check No. 345 in the Cash Disbursement Journal as P5,205. The correct amount of the check was P5,250.

Answer: Book. P45 will be deducted in the book records. The bookkeeper should have deducted P5,250 deductions to cash however he deducted P5,205 only, thus the difference should be deducted.

5. The deposits of Eagle earned interest of P100 for the month. Eagle does not have knowledge of interest earned until it receives the bank statement.

Answer: Book. P100 is added to the book records. Interest income will increase the cash in bank of Eagle.

Practice Set 4

Item 1

The bank statement for August 2014 shows an ending balance of Php3,490.

Item 2

On August 31 the bank statement shows charges of Php35 for the service charge for maintaining the checking account.

Item 3

On August 28 the bank statement shows a return item of Php100 plus a related bank fee of Php10. The

Teacher Tips:

Follow the procedure as illustrated in the lecture/discussion.

return item is a customer's check that was returned because of insufficient funds.

Item 4

The bank statement shows a charge of Php80 for check printing on August 20.

Item 5

The bank statement shows that Php8 was added to the checking account on August 31 for interest earned by the company during the month of August.

Item 6

The bank statement shows that a note receivable of Php1,000 was collected by the bank on August 29 and was deposited into the company's account. On the same day, the bank withdrew Php40 from the company's account as a fee for collecting the note receivable.

Item 7

The company's Cash account at the end of August shows a balance of Php967.

Item 8

During the month of August the company wrote checks totaling more than Php50,000. As of August 31 Php3,021 of the checks written in August had not yet cleared the bank and Php200 of checks written in June had not yet cleared the bank.

Item 9

The Php1,450 of cash received by the company on August 31 was recorded on the company's books as of August 31. However, the Php1,450 of cash receipts was deposited at the bank on the morning of September 1.

Item 10

On August 29 the company's Cash account shows cash sales of Php145. The bank statement shows the amount deposited was actually Php154. The company reviewed the transactions and found that Php154 was the correct amount.

Given the above information, discuss each item whether it is a book reconciling or a bank reconciling item. After the discussion, prepare a bank reconciliation statement.

The bank reconciliation for this exercise is

**ABC COMPANY
BANK RECONCILIATION
AUGUST 31, 2014**

Cash balance per bank statement	Php 3,490
Add: Deposit in Transit	1,450
Subtotal	4,940
Less: Outstanding checks	(3,221)
Adjusted cash balance per bank	Php 1,719
Cash balance per books	Php 967
Add: Interest earned	8
Notes receivable collected less fees	960
Errors in company's Cash account	9
Subtotal	1,944
Less: Bank Service charges	(35)
NSF checks and fees	(110)
Check printing charges	(80)
Adjusted cash balance per books	Php 1,719

EVALUATION (10 MINS)

Bank reconciliation problem:

The bank statement for Juan Company shows a balance per bank of **P15,907.45** on April 30, 2015.

On this date the balance of cash per books is **P11,589.45**.

Additional information are provided below:

Deposits in transit: April 30 deposit (received by the bank on May 1) **P2,201.40**

Outstanding checks: No. 453-**P3,000.00**

No. 457-**P1,401.30**

No. 460-**P1,502.70**

Errors: Juan wrote check no. 443 for **P1,226.00** and the bank correctly paid that amount.
However, he recorded the check as **P1,262.00**.

Bank memoranda:

Debit– NSF check from Pedro P425.60 .

Debit– Charge for printing company checks P30.00

Credit – Collection of note receivable for P1,000 plus interest earned of P50, less bank collection fee of P15.00.

Required: Prepare a bank reconciliation statement using the adjusted method.

Hint: Bank Debit Memo are deductions made by the bank to the account of the depositor

Bank Credit Memo are additions made by the bank to the account of the depositor

Suggested Solution:

JUAN COMPANY
BANK RECONCILIATION STATEMENT
APRIL 30, 20__

Unadjusted Book Balance	11,589.45	Unadusted Bank Balance	15,907.45
Error in recording check no. 443 (P1226-P1262)	36.00	Deposit in Transit	2,201.40
Bank Debit Memo		Outstanding Checks	
NSF Check	(425.60)	No. 453	(3,000.00)
Printing Charge	(30.00)	No. 457	(1,401.30)
Bank Credit Memo		No. 460	(1,502.70)
Collection (1,000+50-15)	1,035.00		
Adjusted Book Balance	<u>12,204.85</u>	Adjusted Bank Balance	<u>12,204.85</u>

Accounting Practice Set

Content Standards

The learners demonstrate an understanding of the preparation of an accounting practice set for a merchandising business.

Performance Standards

1. Prepare basic business forms and documents, such as official receipts, vouchers, sales invoice, purchase invoice, delivery receipts, purchase order, and withdrawal and deposits slips.
2. Complete and submit the accounting practice set for a merchandising business

Learning Competency

Perform the steps in the accounting cycle, from preparation of documents to the preparation, analysis, and interpretation of financial statements

(ABM_FABM12-Ile-g-14).

Specific Learning Outcome

At the end of this lesson, the learners will submit a completed accounting practice set for a merchandising business.

LESSON OUTLINE

Introduction/ Review	Review the following topics: accounting books, bank forms, and accounting process	30
Motivation	Ask the learners to contemplate how accountants knew that transactions had occurred and should be recorded?	30
Instruction	Using the flowchart, discuss the activities and forms in the accounting process. Link the business forms to the activities and accounting books	30
Practice	Instruct the learners to answer the accounting practice set. A sample practice set is provided below.	60
Enrichment and Evaluation	Compare and reconcile the learner's completed financial statements with the correct set of financial statements	30
Materials	Accounting and practice set, calculator and pens, laptop and MS Excel are optional	
Resources		

INTRODUCTION (30 MINS)

- Require the learners to bring to class the prescribed accounting practice set workbook. A short sample is provided below.
- Review the following topics:
 - Journals – book of original entry
 - Special journals
 - General journals
 - Ledgers – books of accounts
 - General ledger
 - Subsidiary ledger
- Review the different kinds of bank forms
 - Deposit slip
 - Withdrawal slip
 - Bank checks
- Completion of the accounting process:
 - Adjusting and closing entries
 - Preparing trial balance and worksheets

Teacher Tips:

Discussion questions for the learners:

- Contemplate the reason for having special journals, in contrast to general ledger.
The purpose of the special journals is to increase efficiency and prevent redundancy in recording transactions in the general journal. For example, a business may have ten credit sales transactions in one day. Without a sales journal, this will require the recording of the following journal entries ten times in one day.

Dr. Accounts receivable

Cr. Sales

- Contemplate why the sales journal is used to record only credit sales and not cash sales. In the same vein, why is a purchase journal used to record only credit purchases and not cash purchases.
This is because all cash transactions are recorded in the cash receipts and cash disbursement books. To record purchases and sales made in cash in the purchase and sales journals will mean double recording because these are already recorded in their respective cash books. It will result in inefficiency and complications.

As visual aid, the teacher can project or show examples (format) of the following:

- Accounting books.
- Business forms

MOTIVATION (30 MINS)

- Pick a well-known company, preferably a company with high-profile advertisements so learners will be familiar with the company and its transactions. For example, Talk N' Text is a telecommunication network company that provides mobile phone services. This company is within the umbrella of PLDT. This is a company that may be very familiar to the learners because they are users of the services that this company provides.
- Ask the learners the following:
 - Examples of revenue transactions of the chosen company. In the case of Talk N' Text, learners may give various answers such as prepaid loads, postpaid plans and internet data services. Ask the learners to point to which accounts in the financial statements are affected by the transactions that they have identified.
 - Examples of expenses of the chosen company. In the case of Talk N' Text, this may include TV and print ads, raw materials for the prepaid cards and the maintenance of the cellular network.
 - Based on the above responses from the learners, ask them to contemplate how the accountants knew when to record revenue and expense transactions? How do these information reach the company's accountant who records in the accounting books and prepares the financial statements?

INSTRUCTION/DELIVERY (45 MINS)

- Show a flow chart of transaction to help learners appreciate how business transactions are recorded, classified and summarized to become financial statements.
- Business forms are used to document business transactions. It contains information relevant to the transaction such as date of transaction, items bought or sold, price, tax and name of buyer and seller. More importantly, business forms document accountability – identification of personnel who performed specific functions related to the transaction. The business forms also show that established policies and procedures are followed in implementing the transaction.

Teacher Tips:

For the motivation phase, you may need the following resources for visual effect:

- a. FS of your chosen company. In the example, this may be the FS of Talk N' Text or PLDT.
- b. Picture of the chosen company's product to be projected using an overhead projector (i.e. picture of prepaid card) or sample of actual product.
- c. Video of the chosen company's video advertisement (i.e. Talk N' Text Aldub commercial) or print advertisement.

Teacher Tips:

A sample flowchart is provided for the teachers.

Show examples of the business forms. You may want to point out the relevant information documented on the business forms.

Examples of business forms are provided in the sample accounting practice set below. Teachers can point out to relevant pages on the accounting practice set.

Use the accounting books in the accounting practice set. Point out the relevant information required to be filled out in the accounting books.

- Introduce the different kinds of business forms:
 1. Internal business forms – forms used only within the business.
 - Purchase request – to document the processes involve prior to sending a confirmed order to the seller. This may include getting quotations from various suppliers and securing budgetary approval to ensure there is funding for the purchase.
 - Check vouchers – used to document the disbursement process. Used to document the following reconciliation process: orders are authorized, deliveries are from valid orders, and purchase invoices represent actual deliveries and agreed upon price.
 2. External business forms – forms used by both buyer and seller.
 - Purchase order – a form prepared by the buyer and sent to the seller to document the order and agreed upon terms of the purchase.
 - Delivery receipts–a form prepared by the seller, with a copy given to the buyer, to document the delivery of the items ordered.
 - Purchase /Sales invoice –It contains information on the prices of the items delivered and the terms of the purchase. This should be consistent with the information on the purchase order. The purchase invoice and sales invoice are the same form. It is referred to as purchase invoice by the buyer because it documents its purchase transaction. On the other hand, the same form is referred to as sales invoice by the seller to document its sale transaction.
 - Official receipts – used to document cash transaction. The entity receiving the cash will prepare the Official Receipts (OR). The entity paying will receive the OR as evidence of payment made.
- Associate the following business forms with the respective accounting books:

Business Forms	Accounting Books
Check voucher (check voucher package includes purchase request, purchase order, delivery receipts and purchase invoice), suppliers' official receipt received for cash payment.	Cash disbursement books
Official receipt issued for cash payment and cash register tapes.	Cash receipts books
Sales invoice issued to customers.	Sales journal
Purchase invoice received from seller.	Purchases journal

Value-Added Tax

The BIR approved invoices and official receipts include Value Added Tax (VAT) information. However, for senior high school, it is suggested that VAT be ignored because this topic may be too complicated for the learners.

The teachers, however, have the option to introduce basic VAT concepts to the learners. Should the teachers decide to include VAT in the accounting practice set, the VAT is computed as follows:

$$\frac{\text{Given Price}}{(1 + \text{VAT Rate})} = \text{Price net of VAT}$$

$$\text{Price net of VAT} \times \text{VAT rate} = \text{VAT}$$

$$\text{Price net of VAT} + \text{VAT} = \text{Given Price}$$

Pro-forma journal entries that includes VAT are as follows:

Revenue:

Accounts receivable (Given Price)
 Revenue (Price net of VAT)
 VAT Payable / Output VAT (VAT)

Expense:

Inventory or Expense (Price net of VAT)
 VAT Receivable / Input VAT (VAT)
 Accounts Payable (Given Price)

- Go through the instruction to fill up the accounting practice set. This will normally include the following:
 - Fill out the business and bank forms to document the given business transactions.
 - Record the business transactions in the appropriate journal. Use the general and special journals provided in the accounting practice set.
 - Post the journal entries in the appropriate subsidiary ledgers and general ledger accounts.
 - Summarize the ledger accounts and list the balances on the trial balance.
 - Record the necessary adjusting entries. Information to prepare the adjusting entries are normally provided in the accounting practice set.
 - Prepare the financial statements from the trial balance.
 - Prepare necessary closing entries and record on the general journal and ledger.
 - You may perform financial statement analysis of the completed financial statements.

PRACTICE (60 MINS)

- Instruct the learners to fill out the accounting practice set.
- The accounting practice set is an application of the bookkeeping procedures discussed in previous topics in ABM1 and ABM 2. If needed, refer to the following teaching guides:
 - ABM1:
 - Books of Accounts
 - Business Transactions and Their Analysis As Applied to the Accounting Cycle of a Service Business
 - Accounting Cycle of a Service Business
 - Accounting Cycle of a Merchandising Business
 - ABM 2
 - Accounting Books – Journal and Ledger
 - Basic Documents and Transactions related to Bank Deposits

Teacher Tips:

You may require the learners to work on their practice set as part of their homework.

To liven up the class, you may introduce some role playing activities. Learners may take different roles as preparer, checker, authorizer and receiver. The learner will always take the role of preparer on their respective practice set.

You may need to guide the learners through the adjusting and closing entries process.

You may allow your learners to use MS Excel for journal, ledger, preparation of the worksheet, trial balance and the financial statements.

Accounting practice set maybe used for both manual and computerized accounting system. However, it is recommended to use manual accounting books for academic purposes in order to give the learners a thorough understanding of the processes involve in capturing business transactions and eventually reporting these on the financial statements. Some of these processes are automated in a computerized system and are invisible to the learners.

ENRICHMENT AND EVALUATION (30 MINS)

- Discuss the completed financial statements in class. This is a way for learners to correct their work.
- Discuss the evaluation of the company's operations using financial analysis techniques. However, be careful with using financial analysis techniques. A horizontal analysis maybe performed only if the accounting practice set provided data for prior accounting periods. Also, if the data is less than one year, the ratios computed may be problematic and may require adjustments that are beyond the scope of senior high-school accounting.

Teacher Tips:

The balances in the learners completed financial statements should reconcile with the answer key. Inform the learners that this is an exercise to develop their bookkeeping skills.

Sample Flowchart

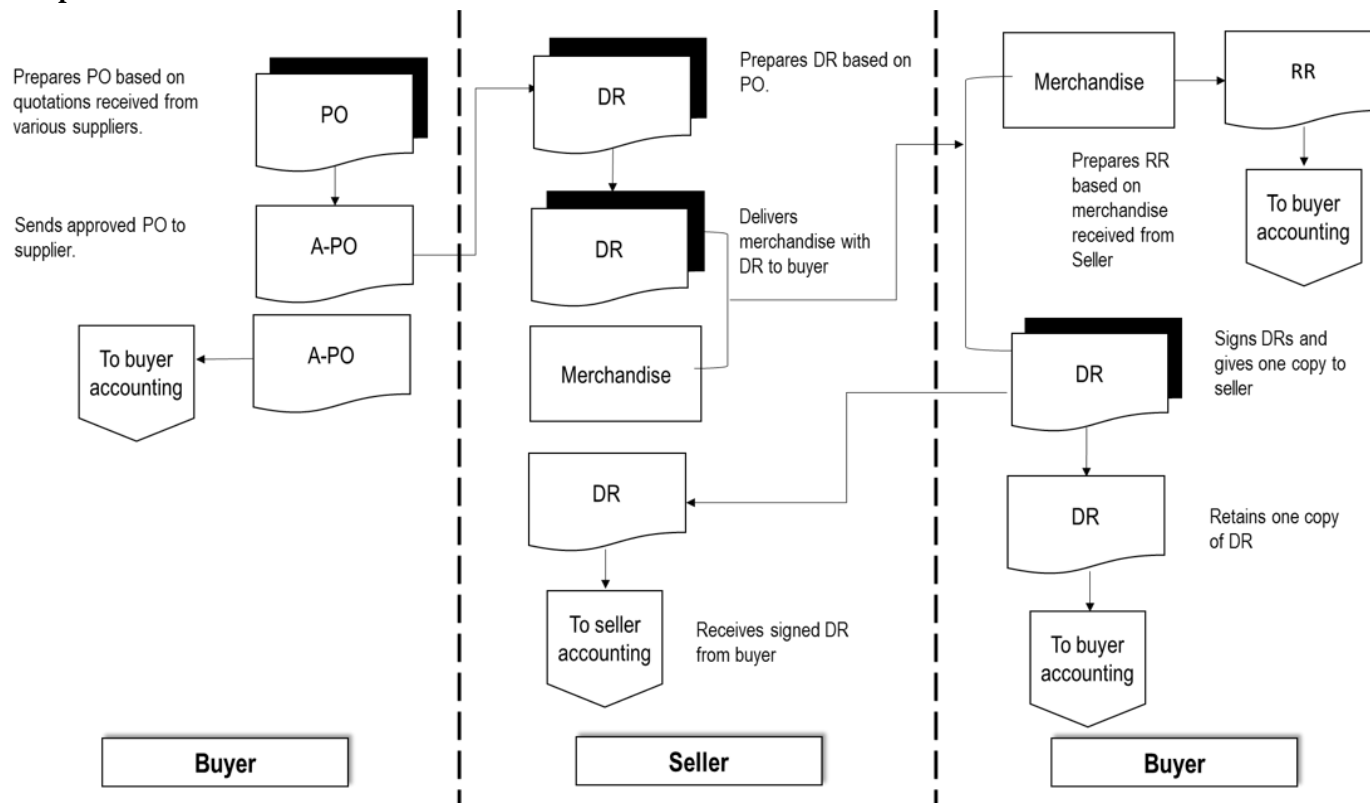


Figure 1

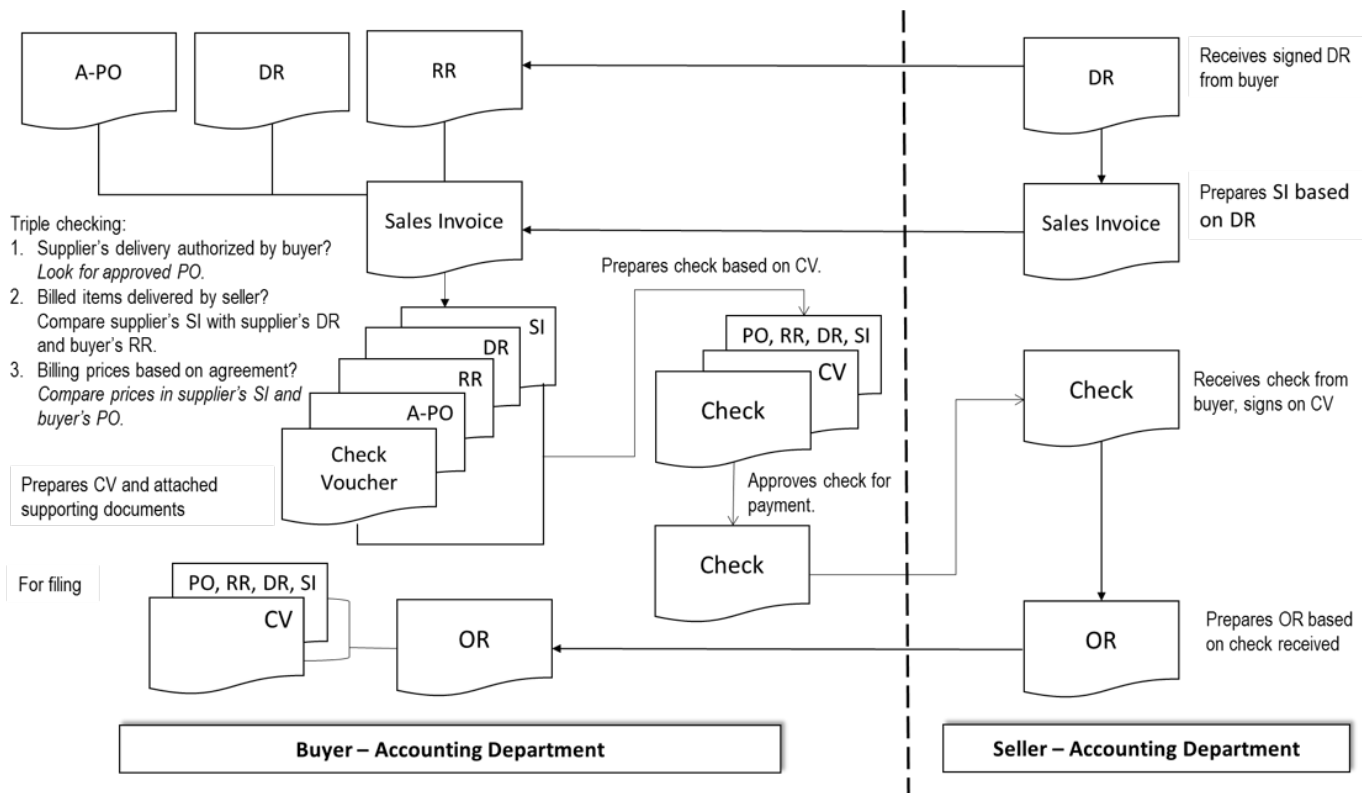


Figure 2

Sample Accounting Practice Set

AngTindahan Co. is a wholesaler of office and school supplies. The following are the transactions of AngTindahan Co. for the first month of its operations. All cash disbursements are made by bank check. Assume perpetual inventory method is used.

Date	Transaction	Amount	Business/Bank forms to be filled up	Journal	Journal Entry
July 1	Rachel Dy made initial contribution to the business by depositing money in the company's bank account.	P200,000			
July 1	Purchased laptop from Computershops Inc. for office use. Payment term: COD (Cash on Delivery).	P45,000			

Date	Transaction	Amount	Business/Bank forms to be filled up	Journal	Journal Entry
July 2	Paid advance rental for 6 months.	30,000			
July 4	Received 200 reams of bond papers (inventory) ordered from Jude Corp. Payment terms: 2/10, n/30.	25,000			
July 7	Delivered 150 reams of bond papers to Aurora Company. Payment terms: 2/10, n/20. Cost of merchandise was P18,750.	41,250			
July 8	Paid the July 4 purchases	24,500			
July 15	Paid salary of employee	7,000			
July 16	Received payment from the July 7 sales.	40,425			
July 18	Sold 20 reams of bond papers to Audrey Company. Audrey picked up the merchandise from the store. Payment term: 15 days. Cost of merchandise was P2,500.	5,500			
July 19	Received 10 boxes of ballpoint pens from Mickey Inc. Payment terms: COD	25,000			
July 22	Over the counter sale of 4 boxes of ballpoint pens to Happy Company. Cost of merchandise was P 10,000	22,000			
	Cost of merchandise was P 10,000				
July 23	Received 10 calculators from Plusminus Corporation. Payment terms: 30 days.	3,000			
July 24	Sold 6 calculators to Joel Company. Joel picked up the merchandise from the store. Payment Term: 15 days. Cost of merchandise was P1,800	3,960			
July 25	Paid electricity bill.	7,400			
July 26	Received 2 defective calculators from Joel Company. Cost of defective calculators is P 600	1,320			
July 31	Over the counter cash withdrawal by the owner, Rachel Dy, for her personal expenses.	10,000			

Requirements:

1. Identify the following and indicate on the spaces provided:
 - a. Business or bank forms to be used by AngTindahan to document the above transactions.
 - b. Journal to be used to record the original entry for the respective transactions.
2. Prepare the journal entry (debit-credit format) to record the above transactions. Use only the accounts listed on the chart of accounts given below.
3. Fill up the relevant forms based on the answer in 1a. Format of the forms are provided below. Reproduce the necessary forms. Follow the numbering instructions.
4. Based on your answer in 1b, record the transactions in the appropriate journals. Formats are also provided below.
5. Post the journal entries in the appropriate subsidiary ledgers and general ledger accounts. Formats are also provided below.
6. Summarize the ledger accounts and list the balances on the trial balance.
7. Record the following adjusting entries.
 - a. Accrual of one month rent
 - b. One month depreciation of laptop computer. Estimated life is 5 years.
 - c. Accrue employee salary, P 7,000
8. Prepare the financial statements from the trial balance.
9. Prepare necessary closing entries and record on the general journal and ledger.
10. Perform financial statement analysis on the completed financial statements.

Note: The teacher has the option to instruct the learners to perform requirement 1. The other alternative is to give these information to the learners and just go straight to the succeeding requirements.

Chart of Accounts

Account Number	Account Name
1000	Cash
1200	Accounts Receivable
1201	Allowance for Bad Debts
1300	Inventory
1400	Prepaid Expenses
1600	Office Equipment
1601	AccumDeprn - Off Eqpt
1800	Land
2000	Accounts Payable
2100	Notes Payable
2201	Salaries Payable
2202	Utilities Payable
3000	Dy, Drawings
3100	Dy, Capital

Account Number	Account Name
4100	Sales
4101	Sales Returns and Allowances
4102	Sales Discount
5100	Cost of Sales
6100	Salaries Expense
6150	Supplies Expense
6200	Utilities Expense
6250	Travel Expense
6300	Rental Expense
6350	Fuel Expense
6400	Advertising Expense
6450	Commissions Expense
6500	Depreciation Expense
6700	Interest Expense


Accounts Receivable - Subsidiary Ledger	
Customer ID Number	Customer Name
1200-00001	Audrey Company
1200-00002	Aurora Company
1200-00003	Happy Company
1200-00004	Joel Company

Accounts Receivable - Subsidiary Ledger	
Supplier ID Number	Supplier Name
2000-00001	Computershop Inc.
2000-00002	Jude Corp.
2000-00003	Plusminus Corporation

Business Forms

Instruction for business and bank forms:

1. Reproduce the forms based on the number of transactions to be documented.
2. Provide the last digit of the business form numbers. Begin with 1 for the first form used. Example, first bank check used should be numbered Check Number 000432651. The second bank check used should be Check Number 000432652.

Ang Tinadahan Company	Account no. 000678912345	Check Number  00043265	R/T Number 0312 0454
-----------------------	------------------------------------	--	----------------------------

PAY TO THE ORDER OF _____	P	
PESOS _____		

ABC Bank

XXYY Branch
ABC Building, Maligaya Avenue, XXYY

ABC bank.com.ph

ABC Bank		CASH DEPOSIT SLIP	
<p>This serves as your receipt when machine validated</p>			
<input type="checkbox"/> Current Account <input type="checkbox"/> Others <input type="checkbox"/> Savings Account _____		<input type="checkbox"/> Peso <input type="checkbox"/> Others <input type="checkbox"/> US Dollar _____	
Account Number _____		Date _____	
Account Name _____			
Cash Deposit breakdown			
Denomination	Pieces	Amount	
TOTAL CASH DEPOSIT			

CHECK DEPOSIT SLIP		
<p>This serves as your receipt when machine validated</p>		
<input type="checkbox"/> Current Account <input type="checkbox"/> Others <input type="checkbox"/> Savings Account _____		<input type="checkbox"/> Peso <input type="checkbox"/> Others <input type="checkbox"/> US Dollar _____
		Date _____
Please use separate slip/s for each type of check		
Type of Check	<input type="checkbox"/> Local <input type="checkbox"/> Out of Town <input type="checkbox"/> Others Bank's MC <input type="checkbox"/> Regional <input type="checkbox"/> On Us Manger's Check (MC)	
Check Deposit breakdown (please endorse each check properly)		
Bank/ Branch	Check Number	Amount
TOTAL CHECK DEPOSIT		

WITHDRAWAL SLIP		
Currency	<input type="checkbox"/> Peso <input type="checkbox"/> US Dollar <input type="checkbox"/> Others _____	
Account Number	Date	
Account Name		
Amount (in words)		
(In figures)		
Withdrawals Thru Representative (Please cross-out if this portion is not applicable)		
I/We hereby authorize _____ whose signature appears below to effect this withdrawal for and in my behalf.		
_____ Signature of Representative		
I/We declare under the penalties of perjury that my/our co-depositor/s is/are still living.		
_____ Signature of Depositor/s		
Verified By	Approved By	
Cash breakdown		
Denomination	Pieces	Amount
TOTAL CASH		
Payment Received By		
Machine Validation		

RECEIVING REPORT

Received From

RR No.

Date received

PO no.

Items	Unit of Measure	Quantity	Description	Remarks
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

I hereby certify that the above items, in the quantity listed, have been received and are in good order except as otherwise stated.

Date

(Printed Name and Signature)

CHECK VOUCHER

Check Voucher No. 00001000_____

Date	
------	--

Received From

Journal Entries	Debit	Credit
Total		
Explanation		

Check Number

	Printed name	Signature	Date
Prepared by			
Checked by			
Approved by			
Received by			

PURCHASE ORDER

Vendor Name

PO No. 00001000____

Contact Information

Date

Shipping Method		Shipping Date	Term	Reference
Items	Description	Qty.	Unit Price	Total
1				
2				
3				
4				
5				
6				
15				

Note

Subtotal

VAT

Total

	Printed Name	Signature	Date
Prepared by			
Checked by			
Approved by	154		

AngTindahan Company

Office Address _____
VAT Registered TIN Number 543-987-234-000

DELIVERY RECEIPT

Delivered To _____
TIN _____
Address _____

Date _____
Terms _____

Quantity

Unit

Articles

1

2

3

4

5

Received the above goods and services in good order and condition

10 Bkts (3X) 1001-1500
BIR Authority to Print No. 4BZ000004333
Date Issued 07-30-13 Valid until 07-29-2018

XY PRINTING SERVICES INC.
Brgy. 987, Manila
TIN 765-789-098-000

Customer's Signature over Printed Name

Printer's Accreditation No. P09151200
Date Issued 08-01-12

No. 100 _____

THIS DELIVERY RECEIPT SHALL BE VALID FOR FIVE YEARS FROM THE DATE OF ATP.

AngTindahan Company

Office Address _____

VAT Registered TIN Number 543-987-234-000

DELIVERY RECEIPT

Sold to: _____ Date _____

TIN _____ Terms _____

Address _____ OSCA/PWD ID No. _____

SC/PWD Signature _____

Quantity	Unit	Articles	Unit Price	Amount
----------	------	----------	------------	--------

			Total Sales (VAT Inclusive)	P
			Less: VAT	
VATable Sales			Amount: Net of VAT	
VAT-Exempt Sales			Less: SC/PWD Discount	
Zero Rates Sales			Amount Due	
VAT Amount			Add: VAT	

10 Bkts (3X) 1001-1500

BIR Authority to Print No. 4BZ000004333

Date Issued 07-30-13 Valid until 07-29-2018

XY PRINTING SERVICES INC.

Brgy. 987, Manila

TIN 765-789-098-000

Total Amount Due P

Printer's Accreditation No. P09151200

Date Issued 08-01-12

No. 100 _____

THIS DELIVERY RECEIPT SHALL BE VALID FOR FIVE YEARS FROM THE DATE OF ATP.

In settlement of the following

AngTindahan Company

Billing Invoice No.	Amount
Total sales (VAT-inclusive)	
Less: VAT	
Total	
Less: SC/PW Discount	
Total Due	
Less: Withholding Tax	
Amount Due	
VATable Sales	
VAT Exempt Sales	
Zero-rated Sales	
VAT Amount	
Total Sales	

Office Address _____

VAT Registered TIN Number 543-987-234-000

OFFICIAL RECEIPT

Date _____

Received from _____ with TIN _____ and
address at _____ engaged in the business style of
_____, the sum of _____
pesos (P _____) in partial/full payment for _____.

Form of Payment	Sr. Citizen TIN	
Cash () Check ()	OSCA/PWD ID No.	Signature

By: _____

Cashier/Authorized Representative

10 Bkts (3X) 1001-1500
BIR Authority to Print No. 4BZ000004333
Date Issued 07-30-13 Valid until 07-29-2018
XY PRINTING SERVICES INC.
Brgy. 987, Manila
TIN 765-789-098-000

Printer's Accreditation No. P09151200
Date Issued 08-01-12

No. 100 _____

THIS DELIVERY RECEIPT SHALL BE VALID FOR FIVE YEARS FROM THE DATE OF ATP.

Accounting Books

SALES JOURNAL					
Date	Account Debited	Invoice No.	Ref	Dr. Accounts Receivable Cr. Sales Revenue	Dr. Cost of Goods sold Cr. Inventory

CASH RECEIPTS JOURNAL									
Date	Account Credited	Ref	Dr. Cash	Dr. Sales Discount	Cr. Sales Revenue	Cr. Accounts Receivable	CR Other Accounts		Dr. Cost of Goods Sold Cr. Inventory

PURCHASES JOURNAL				
Date	Account Debited	Terms	Ref	Dr. Inventory Cr. Accounts Payable

CASH DISBURSEMENTS JOURNAL								
Date	Chk No.	Account Debited	Ref	Other Accounts Dr.		Accounts Payable Dr.	Inventory Dr.	Cash Cr

GENERAL JOURNAL					
Date	Account Number	Account Title and Explanation	Ref	Debit	Credit

GL Account - <Accounts Payable>			Account Number	2000
Date	Ref	Debit	Credit	Balance

AP Subsidiary Ledger - <>			Supplier ID Number	
Date	Ref	Debit	Credit	Balance

GL Account - <Accounts Receivable>			Account Number	1200
Date	Ref	Debit	Credit	Balance

AP Subsidiary Ledger - <>			Customer ID Number	
Date	Ref	Debit	Credit	Balance

GL Account - <>			Account Number	
Date	Ref	Debit	Credit	Balance

GL Account - <>			Account Number	
Date	Ref	Debit	Credit	Balance

Worksheet

[illegible]

Solution to Sample Accounting Practice Set

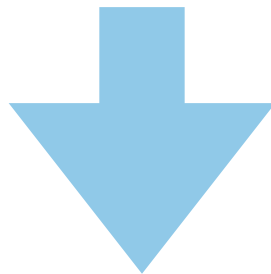
AngTindahan Co. is a wholesaler of office and school supplies. The following are the transactions of AngTindahan Co. for the first month of its operations. All cash disbursements are made by bank check. Assume perpetual inventory method is used.

Date	Transaction	Amount	Business/Bank forms to be filled up	Journal	Journal Entry
July 1	Rachel Dy made initial contribution to the business by depositing money in the company's bank account.	P200,000	Deposit Slip	Cash Receipts	Dr. Cash 200,000 Cr. Dy, Capital 200,000
July 1	Purchased laptop from Computershops Inc. for office use. Payment term: COD (Cash on Delivery).	P45,000	Purchase Order Check Voucher Bank Check	Cash Disbursement	Dr. Office Equipment 45,000 Cr. Cash 45,000
July 2	Paid advance rental for 6 months.	30,000	Check Voucher Bank Check	Cash Disbursement	Dr. Prepaid Expenses 30,000 Cr. Cash 30,000
July 4	Received 200 reams of bond papers (inventory) ordered from Jude Corp. Payment terms: 2/10, n/30.	25,000	Purchase Order Receiving Report	Purchases Journal	Dr. Inventory 25,000 Cr. AP 25,000
July 7	Delivered 150 reams of bond papers to Aurora Company. Payment terms: 2/10, n/20. Cost of merchandise was P18,750.	41,250	Delivery Receipt Sales Invoice	Sales Journal	Dr. AR 41,250 Cr. Sales 41,250 Dr. Cost of Sales 18,750 Cr. Inventory 18,750
July 8	Paid the July 4 purchases	24,500	Check Voucher Bank Check	Cash Disbursement	Dr. AP 25,000 Cr. Cash 24,500 Cr. Inventory* 500 (25,000 x 2%) <i>* In periodic inventory method, this will be credited to Purchase Discount - a contra-purchase account.</i>
July 15	Paid salary of employee	7,000	Check Voucher Bank Check	Cash Disbursement	Dr. Salaries expense 7,000 Cr. Cash 7,000
July 16	Received payment from the July 7 sales.	40,425	Official Receipt Check Deposit	Cash Receipt	Dr. Cash 40,425 Dr. Sales discount 825 Cr. Sales 41,250

Date	Transaction	Amount	Business/Bank forms to be filled up	Journal	Journal Entry
July 18	Sold 20 reams of bond papers to Audrey Company. Audrey picked up the merchandise from the store. Payment term: 15 days. Cost of merchandise was P2,500.	5,500	Sales Invoice	Sales Journal	Dr. AR 5,500 Cr. Sales 5,500 Dr. Cost of sales 2,500 Cr. Inventory 2,500
July 19	Received 10 boxes of ballpoint pens from Mickey Inc. Payment terms: COD	25,000	Purchase Order Receiving Report	Cash Disbursement	Dr. Inventory 25,000 Cr. Cash 25,000
July 22	Over the counter sale of 4 boxes of ballpoint pens to Happy Company. Payment term: Cash Cost of merchandise was P 10,000	22,000	Sales Invoice Official Receipt	Cash Receipts	Dr. Cash 22,000 Cr. Sales 22,000 Dr. Cost of Sales 10,000 Cr. Inventory 10,000
July 23	Received 10 calculators from Plusminus Corporation. Payment terms: 30 days.	3,000	Purchase Order Receiving Report	Purchases Journal	Dr. Inventory 3,000 Cr. AP 3,000
July 24	Sold 6 calculators to Joel Company. Joel picked up the merchandise from the store. Payment Term: 15 days. Cost of merchandise was P1,800	3,960	Sales Invoice	Sales Journal	Dr. AR 3,960 Cr. Sales 3,960 Dr. Cost of sales 1,800 Cr. Inventory 1,800
July 25	Paid electricity bill.	7,400	Check Voucher Bank Check	Cash Disbursement	Dr. Utilities expense 7,000 Cr. Cash 7,000
July 26	Received 2 defective calculators from Joel Company. Cost of defective calculators is P 600	1,320	Receiving Report	General Journal	Dr. Sales return & allowances 1,320 Cr. AR 1,320 Dr. Inventory 600 Cr. Cost of sales 600
July 31	Over the counter cash withdrawal by the owner, Rachel Dy, for her personal expenses.	10,000	Withdrawal Slip	Cash Disbursements	Dr. Dy, Drawings 10,000 Cr. Cash 10,000

Recommended worksheet solution:

Account Number	Account Name	Trial Balance		Adjustments		Adjusted Trial Balance		SFP		SCI	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
1000	Cash	113,925	-			113,925	-	113,925	-		
1200	Accounts Receivable	49,390	-			49,390	-	49,390	-		
1300	Inventory	20,050	-			20,050	-	20,050	-		
1400	Prepaid Expenses	30,000	-		5,000	25,000	-	25,000	-		
1600	Office Equipment	45,000	-			45,000	-	45,000	-		
1601	Accumulated Depreciation - Office Equipment	-	-		750	-	750	-	750		
1800	Land	-	-			-	-	-	-		
2000	Accounts Payable	-	3,000			-	3,000	-	3,000		
2201	Salaries Payable	-	-		7,000	-	7,000	-	7,000		
2202	Utilities Payable	-	-			-	-	-	-		
3000	Dy, Drawings	10,000	-			10,000	-	10,000	-		
3100	Dy, Capital	-	200,000			-	200,000	-	200,000		
4100	Sales	-	113,960			-	113,960			-	113,960
4101	Sales Returns and Allowances	1,320	-			1,320	-			1,320	-
4102	Sales Discount	825	-			825	-			825	-
5100	Cost of Sales	32,450	-			32,450	-			32,450	-
6100	Salaries Expense	7,000	-	7,000		14,000	-			14,000	-
6200	Utilities Expense	7,000	-			7,000	-			7,000	-
6300	Rental Expense	-	-	5,000		5,000	-			5,000	-
6500	Depreciation Expense	-	-	750		750	-			750	-
	Subtotal	316,960	316,960	12,750	12,750	324,710	324,710	263,365	210,750	61,345	113,960
	Net Income								52,615	52,615	
	Total								263,365	113,960	



Financial Statements in Good Form:

ANG TINDAHAN COMPANY Statement of Financial Position As of July 31, 20XX

Cash	Php 113,925
Accounts Receivable	49,390
Inventory	20,050
Prepaid Expenses	25,000
Total Current Assets	Php 208,365
Office Equipment	45,000
Accumulated Depreciation - Office Equipment	(750)
Total Non-Current Assets	Php 44,250
Total Assets	Php 252,615
Accounts Payable	Php 3,000
Salaries Payable	7,000
Total Liabilities	10,000
Dy, Capital	242,615
Total Liabilities and Owner's Equity	252,615

ANG TINDAHAN COMPANY Statement of Comprehensive Income For the month-ended July 31, 20XX

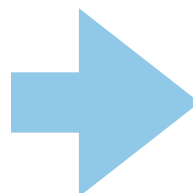
Sales	Php 113,960
Less: Sales Returns and Allowances	1,320
Sales Discount	825
Net Sales	111,815
Less: Cost of Sales	32,450
Gross Profit	79,365
Less: Operating Expenses	
Salaries Expense	14,000
Utilities Expense	7,000
Rental Expense	5,000
Depreciation Expense	750
Total Operating Expenses	26,750
Total Liabilities and Owner's Equity	Php 52,615

ANG TINDAHAN COMPANY Statement of Changes in Equity For the month-ended July 31, 20XX

Dy, Capital, July 1, 20XX	Php -
Add: Additional contributions	200,000
Net income	52,615
Less: Withdrawals	10,000
Dy, Capital, July 31 20XX	Php 242,615

T-Account of Cash

		Debit	Credit
1-Jul	Rachel Dy initial contribution	200,000	
1-Jul	Purchase laptop		45,000.00
2-Jul	Paid advance rental		30,000.00
8-Jul	Paid July 4 purchase of inventory		24,500.00
15-Jul	Paid salary of employee		7,000.00
16-Jul	Collection from customer in July 7 sales	40,425.00	-
19-Jul	Cash purchase		25,000.00
22-Jul	Over the counter cash sales	22,000.00	
25-Jul	Paid electricity bill		7,000.00
31-Jul	Rachel Dy withdrawal for personal expenses		10,000.00
		262,425.00	148,500.00
		113,925.00	



ANG TINDAHAN COMPANY Statement of Cash Flows For the month-ended July 31, 20XX

Operating activities

Cash received from customers	Php 62,425
Cash paid to suppliers	(49,500)
Cash paid to employees	(7,000)
Cash paid for utilities	(7,000)
Cash paid for rent	(30,000)

Net cash used in operating activities (31,075)

Investing Activities

Purchase of office equipment	(45,000)
Net cash used in investing activities	(45,000)

Financing Activities

Owner's contributions	200,000
Owner's withdrawals	(10,000)

Net cash flows from financing activities 190,000

Net change in cash	113,925
Cash, July 1, 20XX	-
Cash, July 31, 20XX	Php 113,925

SUGGESTED FINANCIAL STATEMENT ANALYSIS

Only vertical analysis is recommended because data is insufficient for horizontal analysis. Also, data provided is only for the first month of operations therefore financial ratios may not be meaningful.

ANG TINDAHAN COMPANY Common-Size Statement of Financial Position As of July 31, 20XX

Cash	45%
Accounts Receivable	20%
Inventory	8%
Prepaid Expenses	10%
Total Current Assets	82%
Office Equipment	18%
Accumulated Depreciation - Office Equipment	0%
Total Non-Current Assets	18%
Total Assets	100%
Accounts Payable	1%
Salaries Payable	3%
Total Liabilities	4%
Dy, Capital	96%
Total Liabilities and Owner's Equity	100%

ANG TINDAHAN COMPANY Common-Size Statement of Comprehensive Income For the month-ended July 31, 20XX

Net Sales	100%
Less: Cost of Sales	29%
Gross Profit	71%
Less: Operating Expenses	
Salaries Expense	13%
Utilities Expense	6%
Rental Expense	4%
Depreciation Expense	1%
Total Operating Expenses	24%
Net Income	47%

Income and Business Taxation

Content Standard

The learner demonstrate an understanding of sound principles of taxation, its purpose, and preparation of forms and payment of taxes

Performance Standard

The learners shall be able to accomplish the BIR (Bureau of Internal Revenue) forms

Learning Competencies

The learners:

1. Define income and business taxation and its principles and processes. **(ABM_FABM12-IIh-j-15)**
2. Explain the principles and purposes of taxation. **(ABM_FABM12-IIh-j-19)**
3. Prepare the list of sources of gross income from compensation and gross income from business, and the corresponding personal and additional deductions. **(ABM_FABM12-IIh-j-16)**
4. Distinguish individual from business taxation. **(ABM_FABM12-IIh-j-20)**
5. Explain the procedure in the computation of gross taxable income and tax due. **(ABM_FABM12-IIh-j-17)**
6. Prepare the BIR forms. **(ABM_FABM12-IIh-j-18)**

Specific Learning Outcome

At the end of this lesson, the learners will submit completed BIR tax form for a sample taxpayer.

LESSON OUTLINE

Introduction/ Review and Motivation	Discuss the required reading news articles with the learners. These articles are about top taxpayers and famous personalities with tax evasion cases.	30
Instruction	Lecture on the basic principles of taxation in the Philippines, computation of taxable income and tax due of individuals earning income from compensation, business income and both. Go through the procedures of using eBIRForms software to prepare BIR form 1701.	300
Practice	Given the tax status and sources of income of taxpayers, prepare the BIR tax Form 1701 for each taxpayer. (Attachment 4)	120
Enrichment	Learners will verify the correctness of the BIR Form 1701 prepared by their classmates.	30
Evaluation	Give assignments and a short quiz. Additional exercises are provided below.	60
Materials	Calculator, Notebook, Pen, eBIRForms software, and Laptop with MS Excel	
Resources	BIR Tax Rate Table, BIR Withholding Tax Table, BIR Form 1701	

INTRODUCTION AND MOTIVATION (20 MINS)

- Require the learners to download the latest BIR Tax Rate Table, BIR Withholding Tax Table, E-birforms software and BIR form 1701 from the BIR website www.bir.gov.ph.
- You can use the following articles to perk up the interest of the learners on this topic:
 - **LIST: 39 celebrities among BIR's Top 500 individual taxpayers**
- [http://www.gmanetwork.com/news/story/478514/money/personalfinance/list-39-celebrities-among-bir-s-top-500-individual-taxpayers](http://www.gmanetwork.com/news/story/478514/money/personalfinance/list-39-celebrities-among-bir-s-top-500-individual-taxpayers#sthash.lST4jnym.dpuf)
 - **BIR targets tax-evading celebrities**
- <http://www.abs-cbnnews.com/business/07/06/10/bir-targets-tax-evading-celebrities-0>
 - **BIR files tax raps vs Zoren, 2 others**
- <http://www.philstar.com/headlines/2014/05/09/1321049/bir-files-tax-raps-vs-zoren-2-others>
 - **Manny Pacquiao Lands \$75 Million Blow In Tax Evasion Case**
- <http://www.forbes.com/sites/robertwood/2014/08/22/manny-pacquiao-lands-75-million-blow-in-tax-evasion-case/>
- All earnings citizens of the Philippines, whether from compensation or business, are required to pay taxes. Taxes are revenue of the government that funds government expenditures and programs.

INSTRUCTION/DELIVERY (300 MINS)

I. Principles of Taxation

- Governing tax law in the Philippines is the National Internal Revenue Code of 1997. The Bureau of Internal Revenue (BIR) is the primary implementing agency of this law.
- Taxation is the process by which the government collects revenue in order to pay for its expenses.
- Income tax is defined as the tax on the net income or the entire income realized in one taxable year.

Teacher Tips:

If learners do not have internet facilities, the instructor may download and print the necessary materials. Provide the materials to the students for photocopying.

Current BIR rules require that BIR forms should be prepared using the E-birforms software. However, the teacher can choose to use paper forms to guide learners in accomplishing tax forms. The contents of the paper forms and the E-birforms are the same.

Misconception:

While this module will discuss taxes for both compensation income and business income, businesses are assumed to be sole proprietorships. Partnerships and corporations are not discussed here.

Also, for high school accounting purposes, there will be no discussion on the difference between financial accounting and tax accounting. This topic will be for collegiate accounting discussions.

Teacher Tips:

- For this part of the lecture, you may opt to project the enumeration of the principles of taxation and list of gross income on the board (powerpoint presentation, overhead slides, manila paper). Learners need not memorize all this information. An appreciation of the principles is sufficient at the high school level. These topics will be discussed in greater detail in collegiate tax subjects.

- Who are required to pay income tax in the Philippines? (Section 23 of the National Internal Revenue Code [NIRC] of 1997)
 - A citizen of the Philippines, living in the Philippines, is taxable on all income earned inside and outside the Philippines;
 - A non-resident citizen is taxable only on income earned in the Philippines;
 - An OFW is taxable only on income earned in the Philippines.
 - A foreigner living in the Philippines is taxable only on income earned in the Philippines.
 - A domestic corporation is taxable on all income derived from sources inside and outside the Philippines; and
 - A foreign corporation is taxable only on the income derived inside the Philippines.

II. List of sources of gross income: (NIRC 1997 Chapter 6 Section 32 A)

- Compensation for services in whatever form paid, including, but not limited to fees, salaries, wages, commissions, and similar items;
- Gross income derived from the conduct of trade or business or the exercise of a profession;
- Gains derived from dealings in property; (Note: subject to 6% capital gains tax for individuals and for corporation if land and building is not used in business)
- Interests; (Note: generally subject to 20% final withholding tax)
- Rents;
- Royalties; (Note: generally subject to 20% final withholding tax, 10% if from books and literary works)
- Dividends; (Note: generally subject to 10% final withholding tax for individuals, tax exempt for corporation)
- Annuities;
- Prizes and winnings; (Note: generally subject to 20% final withholding tax, except those that are tax exempt based on specific criteria in the law)
- Pensions; and
- Partner's distributive share from the net income of the general professional partnership.

III. Compensation Income

- Employed individuals that earn compensation income pay their income taxes monthly. Employers withhold the income tax of their employees from their monthly gross income and remit these sums to the BIR.
- Philippine individual income tax is progressive. The tax rate increases as the tax base increases which means that tax payers with more capacity to pay will pay more taxes.

Teacher Tips:

- The list of gross income (Letter II below) enumerates the sources of income for both individuals and businesses. Except for compensation and income derived from trade or business, other income sources are generally subject to final withholding tax on passive income. These income sources are subjected to regular income tax rate only if the source did not meet the exact specifications of income subject to final tax as expressed in the law. Again, students only need an appreciation of this part. There is no need to go in detail because it will only confuse the learners at this level. At the collegiate tax subjects, these items will be discussed in greater detail with reference to both the law (NIRC) and the specific implementation guidelines in the BIR revenue regulation.
- There is a misconception that individual income taxation is about compensation income. But this is not true. An individual may be generating income from compensation (as an employee) and business (for part time services or consultation services). Also, an individual may also be generating solely business income if his or her business is legally organized as a sole proprietorship or a general professional partnership. In such cases that business income is part of an individual tax payer's income, the tax rate is based on the individual's progressive income tax rate. This is important for the learners to understand because this will be used in the examples and practice question in the later section.

- All individual taxpayers are granted a personal exemption of P 50,000. Additional exemptions of P 25,000 are given for each qualified dependent but only up to four dependents. For husband and wives with children, only one spouse can claim the additional exemption. The husband is deemed head of the family and will claim the deduction unless he explicitly waves his right in favor of his wife.
- Withholding income tax for employees:
 - Employers are required by law to withhold income tax dues from their employees' salary.
 - It is implemented because employees might not have sufficient cash to pay for their income tax dues if aggregated to a one time annual payment.
 - The withholding tax deduction is computed based on the employee's gross compensation (net of mandatory contributions to SSS or GSIS, Philhealth and Pag-ibig Fund), tax status, timing of compensation payments and using the published BIR withholding tax table.
- Income tax is computed at the end of the year based on all compensation income derived during the year.
 - Taxable income is computed after deducting personal and additional exemptions.
 - Applicable tax rate is applied on the taxable income to get the tax due.
 - The total income tax withheld by the employer is deducted from the tax due to get remaining tax liability by the employee.
- Taxpayers who derive their income solely from compensation are required to file BIR Form 1700 as their income tax returns. However, to give relief to these taxpayers, the employee may present BIR Form 2316 as their income tax return. BIR Form 2316 is a statement issued by the employer and signed by the employee but not filed with the BIR. This is referred to as substituted filing.

- In the list of sources, you may highlight the difference between income from compensation and income from conduct of trade. In the individual taxpayers' income tax return, there is a separate column for compensation income and business income.

IV. Business Income

- The tax payments of a business organized as a sole proprietorship are made in the name of its owner. The owner is considered an individual taxpayer who derived income from business. He is required to file BIR Form 1701.
- Businesses may settle their income tax liabilities and submit their income tax returns (tax form) to the government three months and fifteen days from the close of the year. For a business that follows a calendar year, the date of settlement is April 15.
 - Some businesses pay income tax on a quarterly basis based on their quarter-end income. Quarterly payments are due sixty days following the close of the first three quarters of the year.
 - When the tax due is in excess of P 2,000, the individual taxpayer may elect to pay the tax in two equal installments. The first installment shall be paid at the time the return is filed and the second installment is paid on or before July 15 following the close of the calendar year.

- Two approaches for the computation of income tax for the business:
 - Itemized deduction. Use the itemized expenses in the income statement. The business should have a complete set of accounting books and supporting receipts for the deductions that were itemized on the tax form.
 - Optional standard deduction scheme. Deductions are up to a maximum of 40% of "gross receipts". "Gross receipts" is equal to net sales plus other taxable income. This means that the business taxable income is equivalent to 60% of gross receipts.
- "Mixed Income Earner" is a compensation-earner who at the same time is engaged in business or practice of profession. A taxpayer deriving mixed income will also use BIR Form 1701.

V. Taxable Income and Tax Due

A. Compensation Income:

Gross compensation (salary and other bonuses)

Less: Statutory contributions (SSS or GSIS, PhilHealth and Pag-ibig Fund)

Gross compensation, net of statutory payments

Less: 13th month pay and other bonuses that are exempted from income tax

= Gross taxable compensation income

Less: Personal (P 50,000 per tax payer) and additional deductions (P 25,000 per qualified dependent, max of 4)

= Net taxable compensation income

Teacher Tips:

It is the prerogative of the teacher if he / she will teach how to determine the amount of the statutory payments. It is not included in the DepEd guideline. The teacher may instead just refer to gross compensation income, net of statutory payments. Tables are in Attachment 1 to 3. You may check out this website on the computation of statutory payments for more information: <http://anythingontheweb.weebly.com/home/how-to-compute-sss-philhealth-and-hdmf-pag-ibig-contributions>

Find the taxable income from the table below and compute the tax due based on the table below.

Taxable Income		Computation of Tax Due
Over	But Not Over	Rate
	10,000	5%
10,000	30,000	P 500 + 10% of the excess over P 10,000
30,000	70,000	P 2,500 + 15% of the excess over P 30,000
70,000	140,000	P 8,500 + 20% of the excess over P 70,000
140,000	250,000	P 22,500 + 25% of the excess over P 140,000
250,000	500,000	P 50,000 + 30% of the excess over P 250,000
500,000		¹⁷⁵ P 125,000 + 32% of the excess over P 500,000

Example:

Juan Dela Cruz generated annual compensation income of P615,000. Statutory payments are as follows:

SSS – P 6,975.60; Philhealth - P 5,250; Pag-ibig Contribution – P 1,200. Total: P 13,425.60

Tax exempt 13th month pay and other bonuses – P 50,000. (Note: Maximum tax exempt 13th month and other bonuses is P 82,000 per Revenue Regulation 3-2015)

Gross compensation (salary and other bonuses)	P615,000.00
Less: Statutory contributions (SSS or GSIS, Philhealth and Pag-ibig Fund)	13,425.60
Less: Tax exempt 13th month bonus	60,000.00
Gross taxable compensation income	P541,574.40

Scenario 1: Juan Dela Cruz is single with no qualified dependent

Gross taxable compensation income	P541,574.40
Less: Personal deduction	50,000.00
Net taxable compensation income	P491,574.40

From tax table, tax due for P491,574.40 is computed as follows:

P50,000 + 30% of the excess over P 250,000

P 50,000 + 30% (P491,574.40 - P250,000) = **P122,472.32** (Note: This is not the tax payable by the individual. Compare this with the amount that the employer withheld. Any difference is the tax liability payable on April 15. Generally, if the employer correctly withheld during the year and there are no changes in the tax status and tax base during the year, the amount withheld will be equal to the tax due. However, there will be a difference if there are changes in the taxability of the tax payer (single to married, changes in number of qualified dependents) and change in tax base (i.e. increase in salary)

Scenario 2: Juan Dela Cruz is married with 3 qualified dependents

Gross taxable compensation income	P541,574.40
Less: Personal deduction	50,000.00
Less: Additional deduction (P 25,000 X 3)	75,000.00
Net taxable compensation income	¹⁷⁶ P416,574.40

From tax table, tax due for P416,574.40 is computed as follows:

P 50,000 + 30% of the excess over P 250,000

P 50,000 + 30% (P416,574.40 - P 250,000) = **P99,972.32**

What if the employer withheld a total of P95,000? Then on April 15 on the subsequent year, the employee will pay an additional P4,972.32. But this does not happen often. Normally, the employers compute for the annual tax due based on the actual gross compensation income at the end of the year. Any additional tax payment may be deducted from the December compensation.

B. Business Income:

Total revenues (Sales, Professional Fee, etc)

Less: Total expenses (Cost of Goods Sold, Operating Expenses)

Taxable income from business

Less: Personal (P 50,000 per tax payer) and additional deductions (P 25,000 per qualified dependent, max of 4)

=Net taxable income

Example:

Juan Dela Cruz is the owner-manager of JDC Trading Company. Total Sales generated during the year amounted to P 1,230,000. Cost of goods sold is P 492,000 and total operating expenses is P 184,500. The company opted for itemized deduction.

Sales	P 1,230,000
Less: Cost of goods sold	492,000
Gross profit	738,000
Less: Operating expenses	184,500
Taxable income from business or profession	P 553,500

Teacher Tips:

Teachers may also choose to discuss how the monthly withholding income tax is determined using the withholding tax table. Tables are in Attachment 4.

Scenario 1: Juan Dela Cruz is single with no qualified dependent

Gross taxable compensation income	P 0
Less: Personal deduction	50,000
Net taxable compensation income	(50,000)
Taxable income from business or profession	P553,500
Total taxable income	P503,500

From tax table, tax due for P503,500 is computed as follows:

P 125,000 + 32% of the excess over P 500,000

P 125,000 + 32% (P 503,500 - P500,000) = **P 126,120**

- Is this the amount payable to the BIR on April 15? Not exactly. If during the year, some of JDC's issued creditable income tax withheld (meaning the clients remitted the withheld amount to the BIR), then the amount withheld maybe deducted from **P 126,120**. Creditable income tax withheld is basically prepaid income tax.
- The remaining liability (after deducting creditable tax withheld), if greater than P 2,000, may be paid in installment – half on April 15 and the other half on July 15.

Scenario 2: Juan Dela Cruz is single with 1 qualified dependent; JDC received creditable income tax withheld from its customers at P 27,655.

Gross taxable compensation income	P 0
Less: Personal deduction	50,000
Less: Additional deduction	25,000
Net taxable compensation income	(75,000)
Taxable income from business	P 553,500
Net taxable income	P 478,500

From tax table, tax due for P 478,500 is computed as follows:

P 50,000 + 30% of the excess over P 250,000

P 50,000 + 30% (P478,500 - P 250,000) = **P118,550**

P 118,550 - P27,655 = **P90,895** (Note: Liability to the BIR. If paid in installment, Juan Dela Cruz will pay P 45,447.50 each on April 15 and July 15).

C. Mixed Income - taxpayer earns both compensation and business income.

Example:

Juan Dela Cruz, a married man with two qualified dependents, generated income from the following sources:

Compensation income:

- a. Annual compensation income generated was P 555,000.
- b. Statutory payments are as follows:
SSS – P 6,975.60; Philhealth - P 5,250; Pag-ibig Contribution – P 1,200. Total: P 13,425.60
- c. Tax exempt 13th month pay and other bonuses – P60,000.
- d. Employer withheld P 89,471.16

Professional income:

- a. Consultancy services earned P 1,230,000. Clients withheld P 61,500 and provided creditable income tax withheld tax return.
- b. He has no record of the receipts of his expenses. He opted for standardized deductions.

Compensation income

Gross compensation (salary and other bonuses)	P 555,000.00
Less: Statutory contributions (SSS or GSIS, Philhealth and Pag-ibig Fund)	13,425.60
Less: Tax exempt 13th month bonus	60,000.00
Gross taxable compensation income	P 481,574.40
Less: Personal deduction	50,000.00
Less: Additional deduction (P 25,000 X 2)	50,000.00
Net taxable compensation income	P381,574.40

Business Income

Revenue from consultancy services	P 1,230,000
Less: 40% standard deductions	492,000
Taxable income from business or profession	P738,000

Combined

Taxable income from business or profession	P 738,000.00
Net taxable compensation income	381,574.40
Total taxable income	P 1,119,574.40

From tax table, tax due for P1,119,574.40 is computed as follows:

P 125,000 + 32% of the excess over P 500,000

P 125,000 + 32% (P1,119,574.40 - P500,000) = **P323,263.81**

Tax due	P 323,263.81
Less: Income tax withheld by employer	89,471.16
Less: Creditable income tax withheld by clients	61,500.00
Net tax payable	P 172,292.65

VI. Preparing Tax Forms using eBIRForms software. (See attachment)

Instruct the learners in the procedures of using the eBIRForms software. Work on Scenario 1.

PRACTICE (120 MINS)

- Go to Attachment 4 for Practice of preparing BIR forms. Require the learners to prepare the BIR forms 1701 for Scenarios 2 to 4 and Additional Exercise (for itemized business income). Attachment 4 may be used for both eBIRForms software and the manual preparation of the BIR form. Blank copy of BIR Form 1701 is in Attachment 5.

Teacher Tips:

This can be made into homework after the lecture on computation of tax due.

To make it interesting, learners may “invent” the personal background of the taxpayer - Taxpayer Identification Number, Address, Birthdate, email address and phone number. However, the other information should be based on the problem.

Suggested activity: Instruct the learners to count off 1 to 3. All number 1s will work on Scenario 2, number 2s will work on Scenario 3 and number 3s will work on Scenario 4. Remind learners that while they are working on the same scenarios, they are to work individually.

ENRICHMENT (30 MINS)

This activity is in connection with the Practice Exercise. In the Practice Activity above, learners will prepare the BIR Form 1701 (including computation of taxable income and tax due) of the taxpayer (scenario) assigned to them. In the enrichment portion, they will exchange BIR Forms with learners from different groups, i.e. Numbers 1 will give their tax forms to numbers 2s who will act as checkers. The checkers will verify the correctness of the filled-up BIR form 1701 given to them.

Teacher Tips:

To make it interesting to the learners, this part can be a role playing session. The checker is the “partner” in an audit firm. The preparer is the “audit associate”. The “partner” will review the work of the associate. He or she can question the associate during the review. The partner will place his initials on the box for signature of taxpayer.

EVALUATION (60 MINS)

- Choose from the additional exercises below to assign as homework for the learners to practice at home as preparation for the quiz. Discuss the answers to the assignment in the next session.
- Give a short quiz to evaluate the learners’ understanding of the lesson. You may choose from the additional exercises below or prepare your own questions.

Additional Exercises

1. Jacqueline Cruz generated annual compensation income of ₱ 455,000, net of statutory payments. Tax exempt 13th month pay and other bonuses – ₱ 30,000. Determine the tax due of Jacqueline Cruz based on the following possible tax status of Jacqueline:
 - a. Jacqueline is single with no dependent.
 - b. Jacqueline is single with one qualified dependent.
 - c. Jacqueline is married with one qualified dependent.
 - d. Jacqueline is married with three qualified dependent.
 - e. Jacqueline is married with five dependents.
2. Jack Cruz is a project consultant. Total project fees earned during the year amounted to P853,000. Jack opted to use the optional standard deduction of 40%. Determine the tax due of Jack Cruz based on the following possible tax status of Jack:
 - a. Jack is single with no dependent.
 - b. Jack is married with one qualified dependent.
 - c. Jack is married with three qualified dependent.
3. Juana Dela Cruz owns a trading business. Sales for the year amounted to P 1,765,000. Expenses are given in the table below:

Beginning inventory	P 123,000	Purchases	P 655,000
Rental	62,000	Ending inventory	144,000
Representation	12,500	Depreciation	26,000
Communication, light and water	52,000	Transportation	20,000
Office supplies	15,000	Bad debt expense	5,500

Determine the tax due of Juana Dela Cruz based on the following possible tax status of Jack:

- a. Juana is married with two qualified dependent.
- b. Juana is single with three qualified dependent.

Solutions

Problem 1

Taxpayer

Jacqueline Cruz

Annual compensation (net of statutory payments)

455,000.00

Status

A	B	C	D	E
Single	Single	Married	Married	Married

Number of children

0	1	1	3	5
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Number of qualified dependents

0	1	1	3	4
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Personal deduction 50,000.00

Additional deduction per qualified dependent 25,000.00

Annual compensation

455,000.00	455,000.00	455,000.00	455,000.00	455,000.00
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Tax-exempt 13th month pay

(30,000.00)	(30,000.00)	(30,000.00)	(30,000.00)	(30,000.00)
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Personal deduction

(50,000.00)	(50,000.00)	(50,000.00)	(50,000.00)	(50,000.00)
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Additional deduction

-	(25,000.00)	(25,000.00)	(75,000.00)	(100,000.00)
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Taxable income

375,000.00	350,000.00	350,000.00	300,000.00	275,000.00
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Base tax

50,000.00	50,000.00	50,000.00	50,000.00	50,000.00
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Additional tax rate

30%	30%	30%	30%	30%
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Tax Due

87,500.00	80,000.00	80,000.00	65,000.00	57,500.00
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Problem 2

Taxpayer		Jack Cruz		
		A	B	C
Status		Single	Married	Married
Number of children		0	1	3
Number of qualified dependents		0	1	3
Personal deduction	50,000.00			
Additional deduction per qualified dependent	25,000.00			
Total project fees		853,000.00	853,000.00	853,000.00
Optional standard deduction	40%	(341,200.00)	(341,200.00)	(341,200.00)
Taxable income		511,800.00	511,800.00	511,800.00
Personal deduction		(50,000.00)	(50,000.00)	(50,000.00)
Additional deduction		-	(25,000.00)	(75,000.00)
Taxable income		461,800.00	436,800.00	386,800.00
Base tax		50,000.00	50,000.00	50,000.00
Additional tax rate		30%	30%	30%
Tax Due		113,540.00	106,040.00	91,040.00

Problem 3

Taxpayer

Juana dela Cruz

	A	B
Status	Married	Married
Number of children	2	3
Number of qualified dependents	2	3
Taxable income	938,000.00	938,000.00
Personal deduction	(50,000.00)	(50,000.00)
Additional deduction	(50,000.00)	(75,000.00)
Taxable income	838,000.00	813,000.00
Base tax	125,000.00	125,000.00
Additional tax rate	32%	32%
Tax Due	233,160.00	225,160.00

Computation of Taxable Income

Sales		1,765,000.00
Beginning inventory	123,000.00	
Purchases	655,000.00	
Ending inventory	(144,000.00)	
Cost of goods sold		634,000.00
Gross profit		1,131,000.00
Operating expenses		
Rental	62,000.00	
Communication, light and water	52,000.00	
Depreciation	26,000.00	
Transportation	20,000.00	
Office supplies	15,000.00	
Representation	12,500.00	
Commissions	5,500.00	(193,000.00)
Taxable income		938,000.00

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Mr. Joselito Florendo is an assistant professor of various business courses under the Cesar E.A. Virata School of Business in UP Diliman. In addition, he was appointed as Vice President for Planning and Finance on 7 May 2014 at the UP Diliman - Cesar E.A. Virata School of Business. Prior to this appoint, he has served multiple duties and responsibilities in the institution as a former Assistant Vice President for Planning and Finance, Executive Director of the UP Provident Fund, Director of the University's Budget Office, Chief Accountant of the University's Accounting Office, Assistant Executive Director of the UP Foundation, Director of UP Diliman's Business Concessions Office and Chair of the Department of Accounting and Finance at the Virata School of Business.

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VP Florendo actively conducts seminars and workshops in accounting and finance for various public and private, local and international organizations. He was recently awarded the Deloitte-FINEX Most Outstanding Finance Educator of the Philippines for the year 2014-2015.

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